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UNIVERSITY OF CAPE TOWN



A critical review of the valuation processes of petrol filling stations in terms of the Municipal Property Rates Act 2004

DEPARTMENT: DEPARTMENT OF CONSTRUCTION ECONOMICS &
MANAGEMENT

DEGREE MPhil

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ABSTRACT

In 2004, the Municipal Property Rates Act 6 of 2004 (MPRA) was promulgated which repealed all the Valuation Ordinances that existed in South Africa. This introduced a single piece of legislation for the purposes of conducting municipal valuations.

This study concentrated on the Cape Town Metropolitan 2006 General Valuation that, at the time, was the first local authority to conduct municipal valuations in terms of the new legislation. The research explored the extent to which local authorities intervened in the valuation process, the independent judgment of property valuers as well as non-co-operation by oil companies during the valuation process, which was evident by them not responding to the survey questions.

The manner in which petrol filling stations were valued, the most frequently used methodology applied and the application of the MPRA in the process were explored. The research was supplemented with a survey of property valuers employed by the local authorities as well as in private practices. This culminated in a holistic overview of the shortcomings in the legislation, the methodology and practice by interested parties in arriving at the municipal valuation in order to provide a critical review.

From the critical review, the shortcomings in the valuation processes were identified, the methodology was addressed and recommendations made to the local authority.

KEY WORDS

Valuation of petrol filling station; Valuation methodology for petrol filling stations; MPRA; Municipal Property Rates Act of SA 2004; General Valuation Roll; Quality control on Municipal Valuations; Valuation practice for petrol filling stations; rating of petrol filling stations and gas stations; performing municipal valuations for petrol filling stations; survey of property valuers in South Africa; Valuer General; Branding; Municipal Valuer.

DEDICATION

This thesis is dedicated to my professional colleagues who encouraged the research.

To my wife Hilary and children, thanks for the support throughout the period of research.

"You are never too old to learn!"

University of Cape Town

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ABBREVIATIONS

BVA	Black Valuers Association
CAMA	Computer Assisted Mass Appraisal
DME	Department of Minerals and Energy
DRDLR	Department of Rural Development and Land Reform
DRCM	Depreciated Replacement Cost Method
ECA	Environmental Conservation Act 73 of 1989
GV	General Valuation
GV 2006	City of Cape Town 2006 General Valuations
IAAO	International Association of Assessing Officers
IPTI	International Property Tax Institute
IVSC	International Valuation Standards Council
MUNICIPAL VALUERS	Registered valuers employed in a municipal valuation department
MPRA	Municipal Property Rates Act 2004
NEMA	National Environmental Management Act 107 of 1998
PFS	Petrol Filling Station
RICS	Royal Institution of Chartered Surveyors
SACPVP	South African Council for the Property Valuers Profession
SAQA	South African Qualifications Authority
SAIV	South African Institute of Valuers
STA	Sectional Titles Act 1986

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CHAPTER 1. INTRODUCTION

1.1 Background

Historically, until the promulgation of the Municipal Property Rates Act 6 of 2004 (MPRA), promulgated in 2004, the nuts and bolts of municipal property valuation was spelt out in various Property Valuation Ordinances (Whittal and Barry, 2004). These Valuation Ordinances prevailed in the old four provinces, prior to their redefinition in 1994 to include the former homelands into nine new provinces, each with its own defined valuation methodology (Bell and Bowman, 2002).

With the establishment of the nine provinces, the Cape Province: Property Valuation Ordinance of 1993 and the Cape Provincial Ordinance No. 20 of 1974 became applicable to the new Eastern Cape, Northern Cape and Western Cape Provinces. The Natal Valuation Ordinance No. 25 of 1974 was applicable to the current KwaZulu-Natal province and the Orange Free State Ordinance No 8 of 1962 was applicable to the Province of the Free State. The Transvaal Local Authorities Rating Ordinance No. 11 of 1977 was applicable to the Gauteng, Mpumalanga, Northern and North West Provinces.

The property tax and rating systems also differed “moving from land only site tax to taxation of land and improvements either with uniform rates/flat rating or differential rates/composite rating. There was a choice of three rating systems viz.) (Bell and Bowman, 2002: p.49): -

- Taxation of land only – referred to site rating or a site tax.
- Taxation of both land and improvements at uniform rates, referred to as flat rating or flat tax.
- Taxation of both land and building, but at differential rates, referred to as composite rating or a composite tax”.

“The use of outdated valuation rolls substantially contributed to a state of inequity, as property values have changed differentially and not uniformly over time. In a

comparison, conducted by Ward (2002), between the 1979 valuations and 1998 market valuations, it is evident that some properties had only increased by three times their 1979 value (poorer suburbs generally created during periods of forced removal), whereas other properties had escalated 35 times above their 1979 value (Atlantic seaboard). Poorer suburbs hence carried more than their fair share of the rates burden, this is termed regressive taxation. In addition, most businesses (commercial and industrial) were established in the former White local authorities (WLAs)” (Whittal and Barry, 2004: p.4).

This resulted in a skewing of the tax base in favour of these WLA's, as businesses are taxed more heavily than residential areas. With democracy, it became widely accepted that fiscal cadastral reform was required in order to promote greater equity and efficiency. This was to be realised in the General Valuation 2000 Project.

The 1996 Constitution of the Republic of South Africa (RSA, 1996) states that the functions of the Provinces (see Section 229) in respect of tax collection from the regulatory framework imposed on the municipality's fiscal powers and functions (see Section 228). The Municipalities are empowered “to impose rates on property and surcharges on fees for services provided by or on behalf of the municipality” (Chapter 13, Sect 228 RSA, 1996). The application and collection of the taxation must be transparent and is an independent process.

This study has concentrated on the Cape Town Metropolitan area where the new MPRA legislation formed the basis of the new 2006 General Valuation. Prior to this general valuation, there was still within the greater Cape Town, the Cape Metropolitan Local Councils (MLCs), each of which operated with its own valuation roll of varying ages, completion and correctness. The oldest valuation roll was in fact that of the Cape Town MLC which was based on 1979 property values. “The method of increasing income using outdated valuations was to charge increasing rates (cents in the Rand of property value). Differential property rates were charged in order to improve equity across the MLC's. In the Cape Province, the property taxation rate was uniform and capped at 2%, although legally this could

be exceeded with provincial approval” (Bell and Bowman, 2002, p.11). The non-uniformity of property taxation in South Africa was thus supported by legislation.

Market data was not primarily the determining factor in terms of the Property Valuation Ordinance 1944 (RSA, 1944) whereby land and buildings were valued separately. The land was assessed by reference to predetermined Sample Site Values taking into account the existence of improvements on each site (Section 43) and the buildings were determined based on the estimated cost of improvements, taking into account structural depreciation and obsolescence (both economic and function) (Marten, 1999). The two values were summed together to provide the market value (Weichardt, 2008).

The Provincial Ordinance of 1944 remained in place until the Western Cape Property Valuation Ordinance, 1993 (“WCPVO”) was promulgated on 22 December 1993 and came into operation on 1 July 1994. The WCPVO adopted the valuation provisions (Section 14 of WCPO) as contained in Section 9 of the Transvaal Local Authority Rating Ordinance, 1977 which provided for a “tripartite assessment” of value in terms of clause 14 and allowed for the “improved value of the land” to be determined and the assessed value of improvements (Marten, 1999).

According to Wybenga (1994), the definition of “market value” as contained in the Transvaal Rating Ordinance was one generally recognised by the South African Courts and, according to the judgment in *Durban Corporation and Another versus Lincoln* 1940 A.D. 36, was regarded as the most logical method of arriving at “market value” of improvements. The then new WCPVO provided the valuer with flexibility to apply other methods where the properties were of such a nature that there was no open market (Wybenga, 1994). In 2000, the City of Cape Town proceeded with the General Valuation 2000 (GV2000) and CAMA (Computer Assisted Mass Appraisals) was new technology, which was used for the first time (Whittal and Barry, 2004; Ward, 2002; Margolius 2002).

The Municipal Property Rates Act 6 of South Africa 2004 (MPRA) was promulgated on the 11th May 2004 and became operative on 2 July 2005 (RSA, 2004). This legislation repealed all the existing Provincial Valuation Ordinances that had prevailed in South Africa and introduced for the first time the principle that all property to be valued on the basis of the market value and reflected as a single value only, *i.e.* the improved capital value was now to be determined. This also created opportunity to develop mass valuation systems (section 45(3) of the MPRA) on a national basis (Espach, 2005).

The market value of a property is now standardised as the national basis for performing property valuations for municipal valuations and is used for determining the rates and taxes payable on the property. This also ensures uniformity and that properties should be valued at 100% of market value which in fact will contribute to the transparency and acceptance of the tax by the taxpayer (Bell and Bowman, 2002: p.11). Based on the local authority's state of readiness a municipality should, within a four-year period, determine when it should implement a general valuation. By March 2009 approximately 85% of the municipalities nationally had complied with having their properties valued (Espach, 2012).

In terms of Section 30(1) (a) of the MPRA a General Valuation must "be made of all properties" (RSA, 2004. p.40) within the municipality. Section 229 of the Constitution provides that a municipality, in accordance with Section 4 (1) (c) of the Municipal Systems Act, Act 32 of 2000 has the right to finance the affairs of the municipality by imposing, *inter alia*, rates on property. In terms of Section 2 (1) of the MPRA a metropolitan or local municipality may levy a rate on property in its area in accordance with the other provisions of the Municipal Property Rates Act 2004.

An additional fundamental change in the MPRA was the manner in which sectional title units were to be valued. Sectional title refers to all sectional title types of property, *viz.* residential, commercial industrial, *etc.* (Van Der Merwe, 1999). In accordance with the prevailing provisions of Section 51 of the Sectional Titles Act, 1986 (RSA, 1986) where the scheme in which a sectional title unit is registered,

the building was to be valued as a whole, *i.e.* a value must be placed on the entire scheme and not on the individual section. The Body Corporate was recognised as the registered owner of the scheme and owners could not object individually to the values of their sections in terms of the Property Valuation Ordinance of 1993. This would also be applicable to all commercial property, hotels, *etc.* including petrol filling stations located in sectional title schemes.

The MPRA superseded the existing provision Section 51 of the Sectional Title Act (RSA, 1986) and introduced for the first time a provision for sectional title units to be valued individually and not as a whole building (Section 47 of the MPRA). This legislation also made way for owners of all Sectional Title properties to object to their municipal valuation of the section if it is not market related (Section 50 of MPRA). Sectional title properties are now rated on the same basis as all other single property entities (CCC, 2007).

In terms of Section 46 of the MPRA the “market value of a property is the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer” (RSA 2004: p.49). This was different from the Depreciated Replacement Cost (DRC) valuation methodology in terms of the Valuation Ordinance 26 of 1944. However the requirements did resemble the market value being the improved value sought in terms of WCPVO. In terms of Section 45 of the MPRA it is stated that the property is to be valued “...in accordance with generally recognised valuation practices, methods and standards ...” (RSA, 2004: p.48) and although inspection of the property to be valued is optional ...” (RSA, 2004: p.48), “comparative, analytical and other systems or techniques may be used, including aerial photography and computer-assisted mass appraisal systems or techniques, taking into account changes in technology and valuation systems and techniques” (RSA, 2004: p.48).

Petrol filling stations are generally “specialised properties” and are to be valued accordingly (Maddison, 1968; French, 2004). Millington (2003) refers to properties with a limited range of potential purchasers or properties which require “specific licence to operate” and even “planning for a particular use”, the nature of the

building may “make it specialised by restricting its versatility in use”, e.g. petrol filling stations (Millington, 2003: p.111). Millington (2003) specifically notes the limited number of purchasers for “...petrol filling stations with a few leading companies frequently dominating the market place” (Millington, 2003: p.112). The MPRA requires the market value of all property which includes petrol filling stations to be derived using the “generally recognised valuation practices” as noted in Section 45(1) of MPRA (RSA, 2004: p.48). Valuers should apply the Throughput Method or Profits Method of valuation (French, 2004) and not the DRC method. The same approach also applies to hotels and cinemas.

The valuation process for filling station needs to be such that when a computer assisted mass appraisals (CAMA) technique or other computerised application is applied it would result in a uniform approach that is easy to perform (Weichardt, 2008). CAMA is used for frequent and rapid property valuations on a large scale and is used particularly in urban residential contexts (Whittal and Barry, 2004). However, according to Wybenga (1994), mass valuation techniques are not recommended and properties should preferably be valued on an individual basis. The use of mass appraisals systems for non-residential property still lags behind that of residential property and much development is still required (Grad, 2009: p.4)

The valuers preparing the valuations for the General Valuation using CAMA do not consider the highest and best usage of the property (Weichardt, 2008; Channing, 2008). Thus, where a service station site is under-performing and no longer required, the development potential of the site is excluded under this process to the detriment of the other ratepayers as inequitable rates and taxes could arise.

In 2005, the City of Cape Town was the first municipality to initiate the process of preparing a General Valuation Roll of all property in the City for 2006. The City of Cape Town General Valuation 2006 (GV 2006) was performed in accordance with the new MPRA. At the time of commencing this research in 2007, the City of Cape Town was the only local authority to have completed its first valuation roll based on market values as at 2nd June 2006.

1.2 Justification of the research topic

In GV 2006, performed in Cape Town in terms of the MPRA, the Throughput Method or Profits Method was used for the valuation of petrol filling stations. The local authority endorses this methodology approach (See Appendix B) and provided guidelines to the “contractors” being valuers to follow the same approach. The basis of valuation was the Throughput Method or Profits Method used to assess the value of the forecourt of the petrol filling station and a rental allocation to be allocated to the behind the forecourt facilities. This could clearly be inappropriate and inequitable because the value of a petrol filling station situated on prime land would be valued on the same basis as one located on less valuable land. These guidelines were issued in addition to the standard guideline on valuations issued by the Department of Local Government (Appendix A).

The purpose of the MPRA is to provide certain powers to the Municipalities which includes the provision for ensuring a “...fair and equitable valuation methods of properties” (RSA, 2004: p.2). Thus, if the local authority specifically directs the municipal valuer as to a specific methodology to be followed or applied that was contrary to normal recognised valuation approaches, this would have an effect on the municipal valuation and the municipal valuer’s independence would be compromised. This may result in the rates arising therefrom not being just and equitable.

Prior to the commencement of a General Valuation Roll for the GV 2006, the City of Cape Town approached non-residential property owners for property information. The response to this appeal was poor and Oil companies approached were not co-operative in the valuation process, a tendency seen both locally and internationally (Weichardt, 2008; O’Donoghue, 2008). Valuers will generally approach the valuation of a petrol filling station by applying the Throughput Method, which has always been the methodology preferred by the oil companies. One thus questions whether the use of alternative methods will perhaps produce more just and equitable rates, especially when the basis of the Profits Method involves valuing the business and not the property (Lynam, 1987).

When a petrol filling station is located on prime land either owned privately or by the oil Company, there may be insufficient management control over the efficiency of the trading operation, nor of the throughput of petrol that will be sold by the operator (Baker, 2004a). Poor management by the operator, site access, marketing and market share, and many other factors influence the very basis upon which the throughput is achieved. A valuer should conduct a municipal valuation taking these influences into account and the justification for doing so, needs to be explored, after all the valuer is obliged to determine the market value of the property and the petrol companies are a closed shop (Naish, 1997).

This study reviews the valuation methodology used by municipal valuer when valuing petrol filling stations for determining the municipal valuation of the property and the process followed in collecting data. The valuation methodology must be explored so that the application is not limited only to the Profits Method. Other valuation attributes such as the position of the site, the exposure and advertising opportunities offered by the site are all considered when undertaking the valuation.

1.3 The fuel industry in South Africa

The fuel industry is controlled by the Petroleum Products Act, 1977 (Act No. 120 of 1977), which regulates the allocation of sites for the sale and distribution of oil products. Up until 1994, the Government dealt with issues relating to the petroleum industry clandestinely (Mokoena and Lloyd, 2004). There are complex agreements between Government and the oil industry that regulate the price of petrol and diesel and how it can be produced, distributed, transported and sold through a network of branded service stations (Rustomjee, 2007; Steyn, 2004).

The Service Station Rationalisation Plan (RATPLAN) was introduced in 1960 and is an agreement between government, the oil companies and the Retail Motor Industry (RMI) to primarily limit the number of filling stations in a geographical area and restricting access to the retail markets. Oil companies are also not allowed to own service stations, although a site may be managed for training purposes.

To overcome this obstacle the oil company will either own the site or enter into a long-term tenancy agreement with a landlord under a head lease. The oil company

then determines the design and wider operation of the service station site in terms of a franchise agreement that stipulates the standards of operation agreed between the filling station operator and the oil company.

For a leased site, oil companies, which are in competition with other oil companies as well as investors and operators or dealers, must pay a market related rental to the landlord. Where a retail dealer operates the property, the company will enter into a tied lease agreement that will ultimately be responsible for the sale of the products. The dealers' profits are earned out of the "retail price" margins that are regulated and controlled by the Government and published by the Department of Minerals and Energy and the rental is paid out of these profits.

In the tied lease arrangement, the oil company assesses the rental to be paid. This rental is usually based upon a rate per litre sold by the dealers ('throughput') and paid within the profit margins allowed or the rental is independently agreed with dealers and these vary between the oil companies (Baker, 2004b). The tied rental is subject to various "artificial criteria" in for the restricted sale of the oil companies' products that include soft loans, promotion facilities and technical assistance. The tied rental represented a "...residual available for payment of rent in a profits exercise based on the accounts of the subject business" (Naish, 1997: p.5). This is an accounting exercise and not a valuation one.

Typically, a petrol station site will consist of a forecourt, and the behind the pump facilities. The forecourt is the immediate area from which the petrol is publicly sold and includes the petrol storage tanks, petrol pumps, kiosks and cashier facilities. The "behind the pump" facilities are improvements which surround the forecourt, e.g. workshops, convenience retail stores, fitment centres, *etc.*

Over the past 20 years, convenience stores have mushroomed intensively alongside the forecourts, varying from small kiosks and mini convenience stores to large expanded or specialised stores offering a host of facilities, restaurants, ATMs, *etc.* (Bainbridge, 2003). Often when a petrol filling station is in a shopping centre environment, the convenience stores create direct competition with

established stores in designated trading areas. This encourages motorists to do convenience shopping at the filling station rather than in the shopping centre. A notable South African example is the situation of Woolworth's stores at Engen petrol filling station sites.

The convenience stores operations have the effect of increasing the volume of petrol sold, thus increasing the gross turnover of the site and consequently, the net profits for the dealership. According to the oil company's analysts it is indicated that petroleum customers "going to service stations tend to buy goods at forecourt stores rather than just filling their tanks. Prime locations, good security, ample parking and being open 24 hours a day makes retail stores at service stations all the more convenient." (Classen, 2001: p.1).

The most common methodology used for the valuing of petrol filling stations, for both rental and capital purposes is to value the buildings and plant and add thereto the value of the forecourt, the latter being calculated on the petrol's throughput (Sedgwick *et al.*, 1969). This is generally the methodology followed in South Africa, although it does not necessarily indicate the market value. However, the market approach produces the most accurate estimate of the fair market value of a petrol filling station property.

Although the method of basing the value on throughput may ultimately result in an above-market related rental or best rental being paid in some high throughput sites, it is not necessarily an open market rental. In addition, the oil companies do pay some very high prices for some special sites if they are sure of the probable volume of petrol that can be sold (Johnson, 1971). Although Section 46 of the MPRA requires open market value to be determined, valuers are instructed by the Cape Town local authority to ignore value attributes, e.g. rental value or prevailing lease agreements, as well as highest and best usage of sites. Thus, according to Weichardt (2008) a true open market value cannot be achieved.

The City of Tshwane (Pretoria) follows a similar approach (Lehobye, 2008a). The market value of the forecourt is determined solely on fuel sales and is not

dependent on underlying land values. Tshwane municipal valuers are required to follow the guidelines as contained in the “Valuation of Petrol Filling Stations” issued by the Scottish Assessors Association (Scottish Assessors Association, 2005a).

1.4 Problem statement

The application of the MPRA does not result in market value being determined for petrol filling stations.

1.5 Research questions

Question 1

How does the local authority input affect the valuation of petrol filling stations?

Question 2

Do property valuers apply their own independent judgment and principles in valuing all types of properties?

Question 3

How do the oil companies influence the valuation of petrol filling stations?

1.6 Propositions

Proposition 1

The lack of quality control procedures can result in the local authority not being able to determine market value for all properties reliably.

Should the valuation process, and hence the local authority’s input through the municipal valuer, not be conducted in a way that fair market values will be achieved, this will have a direct influence on all the valuations including petrol filling stations.

Overall poor quality control throughout the process by the municipal valuer also interferes with the potential to realise market value.

Proposition 2

Valuers do not apply their independent judgment in the case of petrol filling stations.

Proposition 3

Oil companies are uncooperative in the valuation process and may influence the values.

1.7 Research aims and objectives

The research aims to explore the extent to which local authorities intervene in the valuation process and independent judgment of property valuers as well as non-co-operation by oil companies during the valuation process.

The first aim of the research is to investigate the circumstances influencing the valuation of petrol filling stations in the application of the MPRA and any shortcomings by these role players in determining market value, *i.e.* the local authority, valuer and oil company, in the process. Issues that arise as a result of their intervention or lack thereof in order ensuring quality and accurate valuations that are fair and equal will be discussed.

The second aim is to ascertain the most frequently used method of valuation for petrol filling stations and to determine whether the data supplied by the oil companies is sufficient for the estimation of fair market value in municipal valuations.

The final aim is to evaluate the extent to which valuers act independently in the process and the effect this has on their ability to determine market value.

The objective of the research is to identify any shortcomings in the Municipal Valuation of petrol filling stations with a view to providing local authorities with recommendations in the development of an appropriate methodology for valuing petrol filling stations.

1.8 Research methodology

A single case study was conducted utilising the City of Cape Town's 2006 General Valuation, which at the time of commencing the research was the only City that had undertaken its general valuation in terms of the new MPRA legislation.

The case study design comprises of:

- a) Semi-structured interviews with individuals in the local authority responsible for the management of the process and the briefing of the property valuers regarding their approach to the valuation of petrol filling stations;
- b) A survey of valuers who undertook valuations of petrol filling stations in the GV 2006, into the methodology used;
- c) Unstructured interviews with representatives of oil companies

The influence of the oil companies on the selection of valuation techniques, which may ultimately produce a biased valuation as a result of a historical valuation approach, will be explored either by a personal interview or a survey, although the researcher had not been received positively

The results analysed should provide insight as to what are considered the most favourable valuation methods used. Another point of consideration or emphasis would be to show by means of a single case study as to what is possibly achievable when the highest and best usage can be considered in determining the market value and the value of the property when prevailing commercial land values in the area are taken into account.

1.9 Scope and limitations of research

The research will focus on the application of the "open market value" as defined in Section 46 of the Municipal Property Rates Act 2004 and is limited to valuing petrol filling stations for the purposes of the General Valuation performed in Cape Town in 2006.

Some of the information contained in this document may be sensitive. Thus, not all identities of people and properties are declared, as agreed with respondents.

1.10 Structure of dissertation

Chapter One Introduction

This chapter provides a brief overview of the research to be conducted. The research problem, questions and propositions are stated, as well as aims, objectives, scope and limitations. Finally, a brief description of the research method is given.

Chapter Two Literature review

The chapter comprises of the literature review.

The history of the changes made from Provincial Ordinances to national rating legislation was reviewed. In addition, the previous research into the valuation methodology of petrol filling stations was reviewed.

Chapter Three Research Method

In this chapter, the methods following the collection of data both primary and secondary are discussed.

Chapter Four Analysis

The responses to the questionnaire on the municipal valuation of filling stations are analysed.

Chapter Five Conclusion and recommendations

This is the final chapter with conclusions and recommendations.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

In order to suitably address the problem statement, it is essential to note that the 2006 General Valuation in Cape Town was carried out in terms of the Municipal Property Rates Act 2004 (MPRA). In order to understand this process it will be necessary to comment on certain provisions of the MPRA legislation which was considered important for the review on valuations. Once this aspect has been addressed, the effect of the MPRA legislation on the current valuation methodology applied to the market value for petrol filling station can be examined.

As noted by Welkom (2006), the information on petrol filling stations is not freely available in South Africa and the lack of information is not an uncommon situation (Brick *et al.*, 1978). Information is not easily available from the major oil companies due to the strategic nature of the petroleum business (Matsho, 2010: p.48) and "...the industry is very complex, and confidentiality and the macro-economics of the industry do not permit s to extract a fair rental element from oil company profits" (Naish, 2004: p.455).

The MPRA legislation is unique to South Africa and consequently little literature available that primarily focuses on the specific problems that emanated from the implementation of the 2006 Cape Town General Valuation. Only the IPTI (International Property Tax Institute) report of 24th April 2007 (IPTI, 2007) commissioned by the City of Cape Town was available. A further report was obtained Greater Cape Town Civic Alliance (GCTCA), which report related to the 2009 General Valuation which came into effect on 1 July 2010. The GCTCA conducted an audit on the 2009 General Valuation (Swimmer and Powell, 2010) and remarked that their attempts "... to alert the City to its shortcomings in the 2006 GV generally received little to no positive response..." (Swimmer and Powell, 2010: p.1)

The literature from the USA, Australia and the United Kingdom was sourced from recognised property organisations such as the International Association of Assessing Officers (IAAO), the Appraisal Institute of America (AIA), the Royal Institution of Chartered Surveyors (RICS) and the International Valuation Standards Council (IVSC).

The MPRA created practical implications as national valuation practice standards had not been introduced (Sarvari, 2009; Espach, 2008) and valuers were directed in terms of Section 45 (1) of the MPRA to value in accordance with generally recognised valuation standards.

Although many international valuation organisations have followed almost collectively implementing as a group the international valuation standards, the South African Institute of Valuers (SAIV) only adopted the International Valuation Standards (IVSC, 2005b) for its members in 2006 and the South African Council for Property Valuers Profession (SACPVP) in 2008 for all registered valuers. Nevertheless, there were also no National guidelines available, although the City of Cape Town published their own guidelines for valuers (Appendix B). Thus, when the 2006 General Valuation was performed there was no national standard of methodology for municipal valuations. Similarly, when the City of Cape Town had commenced with the 2009 General Valuation roll, no standards for municipal valuations had been published.

Other sources of literature included journals, the Internet and web sites of recognised property organizations. A problem existed in that there was a distinct lack of literature concerning the issues addressed in this thesis. To overcome this problem, the limited literature was supplemented with information gained from primary sources in the form of interviews with selected professional valuers who were knowledgeable of the municipal valuation process, but had not published this knowledge (see Personal Communication and Interviews). The basis of their selection was that they were especially well qualified by their experience to comment on the sort of issues one would have expected to find in the literature.

Thus, collectively, such interviewees' knowledge was a proxy for the conventional literature.

Prior to the promulgation of the earlier Valuation Ordinances in South Africa, little had been published. Jonker (1980) was one of the few authors to have written on the subject of municipal valuations, although articles have been independently written by Smal, editor of the SA Valuer Manual (Smal, 2008; Margolius, 2009). There is also a lack of available real estate information from oil companies as the industry is regarded as a closed shop (Welkom, 2007; Johnson, 1971) and no peer-reviewed publications could be sourced. There is little information that is publicly available and certainly not in the form that could be used in valuations (Millington, 2003: p.168).

This literature review chapter thus incorporates a review of information gained from conventional secondary sources as well as these primary sources referred to above as proxies for the published literature and the latter are not to be confused with the information obtained in terms of the requirements of the empirical part of the work reported on in Chapter 4.

2.2 Historical background to municipal rating in South Africa (Pre-2004)

Property taxation dated back to Egypt in 4142 B.C. and by 3000 B.C. it had been developed to the extent that it was possible to finance the pyramids (Steyn *et al.*, 1990). In 1677 the first land-related taxes (tithes) was introduced after the Dutch settlers had settled in the Cape in 1652. Transfer duty was introduced in 1652 and various forms of charges in land for example a fixed annual rental introduced in 1714. When the British occupied the Cape in 1806, the Dutch system of property registration and all existing taxes on land was retained. Land related taxes were introduced in the other British Colonies and Boer Republics that were established from 1839 onwards (Bell and Bowman, 2002: p.216).

Prior to 1914, local authorities attended to their own municipal valuations and in the Cape, after the formation of the Union in 1910, a Commission was appointed whose mandate it was to report on and investigate the various rating systems that existed under the various Local Government laws of the Province and to make

recommendations for the removal of existing defects and abnormalities (Jonker, 1980). This led to the Valuation Ordinance of 1914 being promulgated, which transferred control of the valuations from the local authorities to the Provincial Administrator and prescribed a uniform system and basis of valuation throughout the Cape Province (Jonker, 1980). This Ordinance prevailed for 30 years until the promulgation of the Valuation Ordinance No. 26 of 1945 (Cape) which was replaced by the Property Valuation Ordinance 1993, which came into force on 1 July 1994 ("the 1993 Ordinance").

Since 1984, the valuation profession and rating legislation in South Africa had undergone a major process of rationalisation and formalisation (Jonker, 1992). The Expropriation Act 63 of 1975 (Act 63 of 1975) introduced more sophisticated approaches to valuations and the legal concepts in property valuation, but the municipal valuation process remained unchanged. In fact, all the four provinces that existed prior to 1996 adhered to their own rating legislation (Jonker, 1992), *i.e.* their own valuation ordinances. All of the then four provinces had adopted the concept of market value for the land, but only the Orange Free State (now The Free State) and Transvaal (now Gauteng) placed a market value on the improvements (Jonker, 1992).

Property tax was called either a 'general rate' or 'assessment rate' (or more generally 'rates on property') and remained one of the main sources of revenue as an annual tax on owners of land (Katz, 1998). Municipalities generally had a choice of tax bases, site rating (*i.e.* unimproved value of the land), flat rating (*i.e.* improved value taxed at uniform rates) or composite rating being land and improvements taxed at differential rates (Bell and Bowman, 2002).

The municipal valuation system that prevailed in the Cape has always differed from other provinces in that sample properties were valued to determine land values and the improvements at a depreciated replacement cost value (Cape Valuation Ordinance No. 26 of 1945), more commonly known as a composite rating system. This was later replaced by a market value for both land and buildings being introduced in 1994 with the promulgation of the Property Valuation

Ordinance of 1993. This valuation methodology was applied when the 2000 General Valuation roll, which came into effect on 1st July 2002.

When the MPRA was promulgated in May 2004 (assented to in June 2005), national legislation was introduced to regulate the power of all the Municipalities to value all property at market value and rate immovable property located within the boundaries of the municipality and all of the various existing Valuation Ordinances were replaced. Properties were all to be valued at market value.

2.3 Local Government Transitional Structure and effect on municipal valuations

According to Steyn (2004) property rates are the most important source of revenue to the municipality. In terms of Section 155 of the Constitution of the Republic of South Africa Act No. 108 of 1996 ("the Constitution") there were three different categories of municipalities envisaged, with varying powers for municipal executives and differing legislative authority. In the current dispensation, South Africa is divided into 52 districts of which six are Metropolitan municipalities. The system of districts is similar to that of the counties in the United Kingdom and United States of America.

Prior to the formation of the Cape Metropolitan Council (CMC) which was established in terms of Section 7 of Proclamation 17 of 1995 (Province of Western Cape) there were 70 racially based councils with 18 different administrations (Whittal and Barry, 2004), of which there were 39 racially-based local government structures in the Cape Metropolitan Area (CMA). The CMA was later amended to a Cape Metropolitan Council (CMC) along with 6 Cape Metropolitan Local Councils (MLCs) (CCC, 2008).

According to Smoothey (2009) these abovementioned metropolitan municipalities largely consist of residential properties, including sectional title schemes, with large numbers of high-density non-residential properties. Agricultural properties are located on the outskirts. A metropolitan area would typically comprise between 250 000 and 800 000 properties (Smoothey, 2009).

According to Mokweni (2009) reducing the number of municipal districts from 894 to 52 districts and creating metropolitan or large local authorities has proved cumbersome, resulting in an unfair distribution of funding. This was evident for example, in the slow service delivery to the smaller areas, e.g. Breede River Winelands Municipality. He expressed the opinion that the large municipal structures detrimentally affected the possibility of good quality control in the municipal valuation process, which was evident in the City of Cape Town and other municipal areas (Mokweni, 2009). With an area as large as the Cape Metropolitan area, there is a large diversification of property attributes over an expanded area. Data-collectors are not adequately trained and property data is recorded with various degrees of accuracy and interpretation (DPLG, 2005a) possibly as a result of their lack of exposure to upmarket dwellings and commercial properties (Wall-Smith, 2009).

2.4 Just and equitable compensation arising out of general valuation rolls

Prior to the 2000 General Valuation (GV2000), the last valuation carried out in the Cape was in 1979 General Valuation (GV1979) and the existing valuation system, upon which rates were based, was considered inequitable (Dunkley, 2003). The 1995 General Valuation roll had been overturned due to political interference (Margolius, 2002; Ward, 2000; Whittal and Barry, 2004). Until the implementation of GV2000 not all the properties in the Cape Town Metropolitan area appeared on the valuation roll. For example, a large portion of the properties located on the Cape Flats (informal housing) were charged a fixed amount per month *in lieu* of rates. Coupled to this, there were various municipal property valuation rolls in existence carried out by the smaller municipalities. In many cases these valuation rolls dated back to between 1974 and 1979, while in areas that fell under former Black local authorities, there were no valuation rolls.

Some local authorities implemented a system of area differentiated rates adjustments. This meant that over the years leading up to the 2000 General Valuation, property owners in areas where property values had risen substantially paid a higher percentage increase in rates than those in poorer areas where property prices had not increased by as much (Whittal and Barry, 2004). According to Ward (2002) market values between 1979 and 1998, in poorer areas,

i.e. those created by forced removal had increased threefold, whereas properties located on the Atlantic Seaboard had increased thirty five times. Ward (2002) noted that the poorer areas had “carried more than their fair share of the rates burden” (Whittal and Barry, 2004, p.4), which clearly demonstrated the inequalities in the rates base that prevailed.

The transfer of responsibilities from National Government to Local Government was often not accompanied with reciprocal financial funding thus placing a strain on heavily regulated local authorities that were struggling to achieve resolutions to broaden their tax base without changes being made to legislation. Steyn (2004), citing Slack and Bird (2004), notes that the main reasons for reform in the property tax system were to simplify tax and to raise more revenues from property tax, as well as to remove inequalities that existed in the tax system (Steyn, 2004).

2.5 Property taxation and the rates policy

With the introduction of the MPRA all land in South Africa fell under the administration of a municipality. According to Dunkley (2004) had rates been collected on the basis of land values only (Site Value Rating) this would have had a major step on land distribution which was in fact the case for about 70% of the municipalities, with 10% being collected on the improved value (Dunkley, 2004).

Although National Government determines through legislation, *i.e.* MPRA, how the valuation must be implemented, the collection of the rates and use of this revenue is determined by the local authority in terms of its budget policy (Steyn, 2004). Once the budget is approved, the rates and taxes are determined in accordance with the rates policy in terms of Section 3 of the MPRA.

The Rates Policy is implemented with a legislated community participation process in terms of Section 4 of the MPRA. This policy must address the levying of rates on municipal property. In terms of the Section 3 of the MPRA, the policy must treat all persons equally and the local authority may levy different rates for different categories of properties as well as exempt certain types of properties. An incorrect classification of a property “category” (Section 3 b (iii) of MPRA) as contained in

the valuation roll as set out in Section 48(2) b of the MPRA would be grounds for objecting (Section 51(c) the MPRA).

The City of Cape Town (CCC, 2007) is specific as to the various categories of properties that it identifies for any form of rebate being either residential or non-residential. As there is no specific category of reference to petrol filling stations, being non-residential properties they are rated on the same basis as a commercial property and there are no exemptions or rebates. A metropolitan or local municipality may levy a rate (section 2(1) of MPRA) upon the property's market value as reflected in the valuation roll.

2.6 Market value, municipal value and methodology

Market value is considered by many countries (e.g. Canada, England, South Africa and USA) as the basis for the determination of the municipal valuation upon which rates and taxes are based (Steyn, 2004)). Although market value is the most common term used, various states in the United States of America use the term "Capital Value", "Rateable Value" or "Rentable Value" (Grad, 2009: p.1).

The fundamental outcome of the general valuation roll is that the market value reflected is deemed to be the value of the property at the effective date of the general valuation. While a single property sale would most likely be an arm's length transaction and reflect an open market valuation for the specific property, however it does not form the basis for a ratio study, which is the market value within a group of properties (IAAO, 2007). Mass valuations using CAMA and single-property valuations are systemic methods of valuing which often differ only in the scope of the application. The mass valuations have more terms as they attempt to replicate one or more land uses across wider geographical areas as opposed to the single-property valuation representing the market for one kind of land use in a limited area (Eckert, 1990: p.35). Therefore, by using CAMA it may result in a different value assigned in the roll, than the actual selling price of a specific property on the effective date.

Through the national monitoring of the uniformity of municipal valuations, the investigations need to include the ratio studies of property valuations to selling

prices as provided in terms of Section 82 of the MPRA. The provincial authority has indicated that it did not have the necessary finances available to monitor the valuation roll, a process that they intended undertaking in 2011.

The International Valuation Standards Council states that the market value (IVSC, 2005b) which a valuer would seek to determine is “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion” (IVSC, 2005b: p 82). The IVSC (2005b) recognised that every application is tied to a specific valuation problem, the solution of which depends on the valuer's ability to select the relevant techniques and exercise appropriate judgment. This market definition has also been adopted as a price guideline to members of the South African Institute of Valuers (Smal, 2008; Margolius, 2009) and the South African Council for the Property Valuers Profession in 2009 (RSA, 2000a).

The International Association of Assessing Officers (IAAO) defines market value slightly differently, as being “the most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite for a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus” (IAAO, 2012: p.17). “Market data is essential if uniformity and equality in the assessment of value are to be achieved and the best evidence of market value is the actions of buyers and sellers in the market. Sales, when consummated, are of all types with all possible conditions, and reflect the attitudes and ideas of people. The imperfect nature of the real estate market makes each sold property subject to scrutiny to learn how closely the sale conditions meet the criteria in the definition of market value” (IAAO, 1996: p.100).

According to Grad (2009), the market value, for *ad valorem* purposes, typically represents the most probable price, not the highest or lowest, and it implies a reasonable time for exposure on the market. Market value implies an arm's length transaction in the open market and assumes that both buyers and

sellers are informed about present and potential uses of the property. The derivation of an assessment value is a statutory requirement and must be determined in accordance with that statutory definition (Grad, 2009).

The general basis of valuation provided for in terms of Section 46(1) of the MPRA (RSA, 2004) is the market value of the property, which is defined as "...the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer..." In determining the market value, the valuer is directed to consider various conditions for the purpose of valuing the property for a General Valuation, including those which relate primarily to licences and usage of the property (Section 46(2) of the MPRA), and excluding certain immovable property fixtures and unregistered leases (see MPRA Section 46 (3) (c)). Where the available market related data is insufficient to determine the market value of public service infrastructure, such public service infrastructure may be valued using any other method of valuation ("technique") as may be prescribed in terms of Section 45 (3) (a) of the MPRA.

The legislated definition of market value is not a true market value, but the market value for rates and taxes purposes which in some cases is different to normal open market value, e.g. ignoring any unregistered lease in respect of the property (see Section 46(3)(vi) (c) of the MPRA) (Weichardt, 2008). This approach is similar to how valuations for rating purposes are performed in New Zealand (O'Donoghue, J., 2008 -Personal communication, 3 June 2008) and Australia, where the leases of the property are also ignored and a market rental is assessed in terms of Section 21 of the Rating Valuations Act 1998 No 69 (New Zealand). This is to ensure that the valuation roll is consistent. However, if a market value assessment were carried out for purposes other than rating and taxation, then the actual lease terms and conditions would be reflected (O'Donoghue, 2008).

As noted, the definition of market value contained in Section 46 of the MPRA is somewhat different to the International Valuation Standard Council definition of market value. South African jurisprudence often references the judgment in *Pietermaritzburg Corporation v South African Breweries Limited* 1911 AD 501 @

516: "The market value of the property is what it will fetch if sold by a willing seller to a willing buyer on the usual terms and conditions". The notion of willing buyer and willing seller (see *Minister of Water Affairs v Mostert and others* 1966(4) SA 690 (A)) has become an essential ingredient in the definition of market value (Jonker, 1992) and is continually evidenced from our case law and jurisprudence.

In these definitions indicated and the jurisprudence, which flows from our case law, the valuer is free to determine what is commonly considered to be the open market value. But, as soon as restrictions are imposed or directions given to the valuer that are likely to interfere with this determination, then the market value is not that which arises between the willing buyer and willing seller. It is noted that, in terms of the MPRA, for example, valuers are instructed to disregard certain buildings or immovable structures of mining property (Section 46 (3) a)) and certain equipment or machinery (Section 46 (3)(b)). Further, the physical inspection of the property is optional (Section 45(2)). The optional inspection provision is contrary to international valuation standards that do require an inspection for the ascertaining of market value (IVSC, 2005b).

When the City of Cape Town conducted the 2006 General Valuation in terms of the MPRA, 735,000 properties were valued, compared with the 539,500 valued in 2000 General Valuation. The increase included about 90,000 individual sectional title units that were valued for the first time in terms of Section 47 of the MPRA.

It is the term Market Value that according to Grad (Grad, 2009: p1) creates the problems, as the valuer needs to interpret what the policymakers and drafters of the legislation intended. According to Gloudemans (1999) the valuation methods are not established by the underlying legislation, but are more dependent on the valuer's professional skill and judgment. This will create specific differences in the valuation where, legislation provides for methodology, but does not provide standard guidelines to the valuer. The valuer may approach the valuation with various methods especially in respect of non-residential properties.

According to Hartzenberg (2009) valuers should not overlook the context of the valuation, the laws (e.g. expropriation) and the requirements to perform the valuation. The IVSC Standard 2 ("Valuation bases other than market value") notes that properties may be valued on bases "...other than market value..." (IVSC, 2005a: p.93). An example of this is "assessed, rateable or taxable value", where the definitions are contained in the applicable legislation and even where the term "Market Value" as the assessment basis, the results obtained may differ from that contained in the definition of market value (IVSC, 2005b: p.94). The "Market value" is not the same as the price, but if the market is reasonably competitive the prices can be strong evidence of market value (IAAO, 2012).

The International Property Tax Institute (IPTI, 2007), when reviewing the Cape Town 2006 General Valuation recorded that it was unfortunate that the MPRA did not define "market value" (Section 46(1) of MPRA) as the "most probable sales price" (IPTI, 2007: p.7; IAAO, 2012: p.17). IPTI had previously indicated their concern in the IPTI's 2002 report that commented on the fact that according the dictum in RSA case law, that "sale price" is market value (IPTI, 2007: p.7). Although legislation would ensure that rates are based on the typical expected market value, "not the individual sale prices, which would vary somewhat randomly for similar properties" (IPTI, 2007: p.7). It would be left to the Courts as to how they would finally interpret the legislation.

In the United Kingdom where property taxes date back to 1601, different terminology is used for properties other than residential (domestic) properties. The Property Taxes (Council Tax) in the UK are calculated differently for domestic properties as opposed to non-domestic properties. The non-domestic rates are calculated according to a Rateable Value (RV) of the hereditament, in accordance with the Local Government Finances Act 1988 which was amended by the Rating (Valuation) Act 1999. The hereditament is the area of a property included in a rateable value. This can cover all of one property, or be several separate units in one building or site.

For domestic property a system of value “banding” (Steyn, 2004: p.79) is used and the rates, referred to as “Council Tax”, are based upon the value of the band (Steyn, 2004). It is a robust approach to value with the basis being the capital value a dwelling might reasonably be expected to have sold in the open market by a willing vendor (Plimmer, 2002).

“The “Rateable Value” is a notional annual rental value attributed to a property on the basis of certain assumptions. The valuer is required to determine the annual amount of rent, which, if the property were vacant and available for letting on the open market, it would attract for a tenancy, from year to year. The tenancy is based upon a notional or hypothetical one, not based on the actual characteristics of the landlord or the tenant (if there is a landlord and a tenant) or the terms of any tenancy to which the property may be subject” (Rating Valuation Act 1999: p.2).

It is important to remember that, because Rateable Value is an estimate of yearly rental and “it is not affected by factors which influence the capital value of the hereditament. Significantly, “the rateable value is the rent paid for the hereditament in its existing state and for its existing use.” (Rating Valuation Act, 1999: p.2). This differs from the market value in terms of the MPRA. However, there is a common thread in the formulation of the rateable values or market value as the case may be. The Rateable Value is determined, as in the case with the definition of market value in the MPRA, by excluding the existing lease agreements (Section 46(3) c of the MPRA). However, lease terms and conditions have an important bearing on the properties let (Millington, 2003). If a market value is to be determined, e.g. an investment property, the value is governed by the underlying lease/s.

A valuer’s duty is always to “determine exactly what the purpose of the valuation is and on what basis an interest is to be valued” (Millington, 2003: p.80). It may not necessarily always be market value. Valuers are often faced with many difficulties that “defy market analysis and value justification” (Albritton, 1980: p.1). Consequently, “value-in-use” has been used as a substitute for market value in expropriation matters. According to Grad (2009), an issue arises in many

jurisdictions concerning the interpretation of legislature, regarding whether 'value in use' or 'value in exchange' is required. Questions often arise about the rights that are being transferred under each interpretation.

Baker (2004a) noted that the valuation of petrol filling stations does not occur similarly to other properties because they are specialised properties. They are defined as "...that are specialised and rarely (if ever) sold, except as part of the business in occupation" (Millington, 2003: p.144), the use of which is influenced by Government legislation. Notwithstanding the Government interference there are "Use Agreements" often encountered where the land is privately owned and an oil company has been allocated a section of the site for a forecourt - in addition to the "tied leases" (Baker, 2004b: p.13) and franchise agreements. Such Use Agreements typically include extensive exclusive rights to the sale of petroleum products, as well as conditions of first refusal or options to purchase that could affect the market value of the site (especially if the site could be offered to another oil company).

Practical problems arise from implementing the valuation of non-residential properties when the valuation is done in a recession (Sanderson, 2009). If the system of local property taxation is based upon market value the main practical problem for the valuer is trying to find a market value for properties that have either never been let or sold, or that rarely sell. Identifying the taxpayer, determining a unit of assessment and the appropriate method of valuation were all seen as a problem.

During 2009 and 2010, there was a worldwide economic recession. It was during this time that the City of Cape Town introduced the 2009 General Valuation based upon property values as at 1 July 2009, which came into effect on 1 July 2010 (Gavor, 2009). There were 37 000 objections out of 780 000 properties that were valued in 2006. It has been reported that the General Valuations' 2009 has been completed to exceptional standards and achieved good results. Although the Mayor Plato acknowledges that there were problems with the implementation (IOL, 2010). The good results as noted in this report is said to have emanated from IPTI

report, which stated that the valuations was in line with international best practise. However, it recommended by IPTI, according to the IOL (2010), that the city should exercise better supervision and quality control. Furthermore, the City staff was required to be involved in the modelling process and the sales review should commence earlier.

2.7 Valuation techniques

According to the provisions of Section 45 of the MPRA property must be valued in accordance with generally recognised valuation practices, methods and standards. When valuing specialised property Millington (2003) suggests that the valuer selects the most appropriate method to value the property and he should consider who the most likely prospective purchaser would be in the market place. In this process is use to which the property maybe put and how the potential purchaser may assess the value of the property (Millington, 2003: p.112).

2.7.1 Computer assisted mass appraisal (CAMA)

Mass appraisal involves the systemic application of a uniform process to produce property values that can be statistically tested and reviewed (IPTI, 2007). The International Association of Assessing Officers (IAAO) describes mass appraisal as “a process of valuing a group of properties as at a given date using common data, ... standard procedures and statistical testing” (Gloudemans, 1999: p.12).

Both single property valuations and mass appraisals require market research (Gloudemans, 1999) that have similar steps and are based upon the same principles (Bagdonavicius, 2009). The result of a single property valuation (as opposed to the result and methodology for mass appraisals) is that in a single property valuation, the valuer will only concentrate on those comparable properties that address the subject property being valued and usually submits a narrative report to the Client. This is different from a mass appraisal where the principle differences between a single property valuation and a mass appraisal are in scale and quality (Eckert, 1990).

Irrespective of whether the valuation is for a mass appraisal or a single appraisal, the ultimate objective is the same, *i.e.* the accurate determination of value. In a

normal fee-valuation, the valuer only has one client to satisfy. But, mass appraisal, on the other hand requires the development of valuation models capable of replicating the forces of demand and supply over an entire city (Gloudemans, 1999).

According to the MPRA, a mass valuation system or technique that may be approved by a municipality includes a valuation system or technique based on predetermined bands of property values and the designation of properties to one of those bands on the basis of minimal market-related data ((Section 45 2(b)) of the MPRA). Although market value would need to be achieved in terms of Section 46 of the MPRA, this would be done by taking into account mass appraisal techniques, e.g. CAMA (Weichardt, 2008).

According to Ward (2012), CAMA has been used in Eastern Europe, e.g. Lithuania, Russia, Hong Kong, Thailand and the Philippines. In all cases the underlying basis for valuation is market value. CAMA technology was implemented for the first time by the City of Cape Town when the 2000 General Valuation of the residential sector was done (Weichardt, 2002).

The advantage of using CAMA (Smoothey, 2009) in South Africa was that the high cost of appraisal (US\$30 - US\$50 per property) was drastically reduced. CAMA is considered a more efficient use of resources, providing savings to the City and ultimately the ratepayers. The changing worldwide technology affects all society and local government is not immune (Mellet, 2001). CAMA is also “data hungry” (Franzen, 2002: p.10) requiring high levels of skill and appropriate computer technology (Franzen, 2002).

Geho (2003) noted that CAMA subscribes to the principle of Garbage-In-Garbage-Out (GIGO) which translated would mean that the method relied on accurate data collection and input. While the CAMA technique cannot increase “valuation precision/accuracy” (Geho, 2003: p.12), it can introduce more consistency into the valuation process.

There is a critical shortage of skilled valuers and technical staff (Franzen, 2002), which could be overcome by using the CAMA, based mass appraisal techniques. By adopting common systems and techniques the learning process could fast track. This required collaboration and commitment to sharing of resources and learning (Smoothey, 2009). Franzen (2002) identified many African states that lacked appropriate programs and suggested that the institutions in Africa work towards closer co-operation.

The public is required to understand the principles of CAMA when general valuations are conducted, as traditionally owners were not well informed and were reluctant to provide information (Espach, 2008a). The MPRA requires local authorities to communicate with ratepayers (Collatz and Espach, 2008) about the valuation process, but more needs to be done in this regard. This will address the understanding of the process where in the case of single property valuations, valuers conduct market research and determine a value for a single property at a given date and then provide a report indicating the final valuation (Gloudemans, 1999).

According to IPTI (2007) the quality of residential samples in the Cape Town 2006 General Valuation appeared acceptable with the modellers' coefficient of dispersion (average errors), which is between 18% and 25% depending on the market area. Given the problems of the rapid increase in property prices and the general difficulties experienced as set out in the report, e.g. time to complete the process, these results were described as being "as good as could be attained" (IPTI, 2007). As commercial property was only partially done using CAMA, no statistics were made available in the IPTI report (IPTI, 2007).

According to Grad (2009) the valuation of non-residential properties introduced a greater level of complexity and difficulty to the determination of values. Sales comparison methods for residential properties are modelled on the sales approach, while either the market sales, cost, or income approaches can be used for non-residential properties (Grad, 2009).

2.7.2 Geographical banding

The MPRA (Section 45(3) b) provides for “... techniques based on pre-determined bands of property values...” (RSA, 2004: p.50), in addition to the use of CAMA. Geographical banding has never been implemented in South Africa. According to Meakin (2009), the geographical-banding system applies where a neighbourhood is assigned the same municipal value for rating purposes, whether the property is vacant, or has substantial improvements on it.

The concept of ratepayers contributing rates and taxes to the local authority in proportion to the value of their individual properties is an archaic policy that unfairly discriminates against ratepayers who build houses and improve their land (Meakin, 2009). According to Meakin (2009) geographical banding valuations are also more substantially cost effective to implement and can be completed in a shorter period. The valuations can be performed with unqualified accuracy, because they are not predictions, but rather are algebraic functions that rely entirely on Deeds Office records, not physical inspections.

2.8 The Cape Town 2006 General Valuation

The valuation of residential and sectional title property was carried out predominantly using the CAMA modelling. Commercial properties, the more complex non-residential properties and specialised properties, *e.g.* shopping centres, schools, universities, refineries, prisons, airports, petrol filling stations, *etc.* were undertaken by private contracted valuers (Weichardt, 2009).

According to IPTI (2007: p.3) the methodology used to value commercial properties was “as good as could be implemented under the circumstances”, but noted that there were several serious shortcomings. Better preparation for the 2009 General Valuation was required. The IPTI (2007) also criticised the use of extensive factors, rather than the creation of new models and commented that the “...sales data should be better reviewed and screened...” (IPTI, 2007: p.31). IPTI (2007) remarked that the most important shortcoming in the process for the commercial property for GV 2006 “...was built primarily upon income data collected for GV 2000, not GV 2006. Second, the process involved extensive use of factors

rather than new models constructed from new income data. Third, the important value review component was virtually precluded.” (IPTI, 2007: p.36).

A Municipal Valuation Roll needs to be accurate. It should be monitored as provided for in terms of section 81(1) of MPRA and checked to ensure that the property values are achieved by proper application of subsections (1) and (2) of Section 45 of the MPRA (Solomons, 2007). Quality control needs to be present during the process to ensure that the correct data is collected and that there is consistency in the valuation process. The verification of data was clearly absent for the valuation in the Cape Town 2006 General Valuation (Wall-Smith, 2009).

According to Wall-Smith (2009) quality control of final values and data collection should involve physical inspections at various stages. Once the CAMA process is complete, all values should be verified by valuers and, at the very least, compared to selling prices. If the valuation process fails the test as to whether a proper process was carried out, then it will be because of inferior data collection and/or the processing of insufficient market related data (Solomon, 2007). The municipal valuer had not employed sufficient quality control (Weichardt, 2008) and the errors arising out of the valuation process only becomes evident when the objection to the general valuations were lodged (IPTI, 2007).

The importance of accurate data collection was emphasized by the International Property Tax Institute, which noted that, when preparing the single residential inventory, the staff that are employed have little, if any, experience in the collection of real property data. It was also recorded that there were problems relating to the “quality” and “condition” variables in the record made by data-collectors, which was as a result of inadequate training. This was seen to be part of the reason for inconsistencies in both the GV 2000 and GV 2006 (IPTI, 2007).

The IPTI (2007) report on the GV 2006 noted improvements since its previous audit in 2002 on the GV 2000 in various aspects of the valuation process such as individual valuation of sectional title properties and no longer valuing of land and buildings separately, but noted a serious shortcoming, namely, the “lack of

fulsome validation of sales” in the residential sector (IPTI, 2007: p.2). The absence of regular screening of residential sales and maintaining a valid sales database were highlighted as problems. This in addition to the absence of the poor quality control could produce a valuation roll that would not be acceptable.

A valuer needs to understand and apply legal concepts of property, to perform market analysis and calibrate statistical models that reflect the workings of the market (Eckert, 1990: p.109). Ratio data measures the quality of the valuations and the co-efficient of dispersion (COD), which measures the “average percentage by which individual ratios vary from the median ratio” which is the general level of valuation acceptance in a given geographical area. “A low COD indicates that the valuations within the area or class of property are uniform whereas a high COD indicates that the properties are being valued at inconsistent percentages of market value” (Eckert, 1990: p.23). Good practice dictates a co-efficient of dispersion (COD) should be 15% or less for older buildings and 10% or less for newer buildings (Eckert, 1990: p.109). Income producing properties require a COD of 15 percent or less in larger urban areas and 20% or less generally. Only between 18% and 25% was achieved when the Cape Town GV 2006 was completed for residential property.

Nevertheless, IPTI (2007) was satisfied with the models, but expressed concern about “the statistical relevance of the individual coefficients” of dispersion for the residential valuation (IPTI, 2007: p.21) and found serious shortcomings in the valuation of commercial properties as well and suggested that the City must be “better planned and organised” (IPTI, 2007: p.42), by employing a core group of qualified commercial valuers for the next commercial valuation.

Without good quality control, in the data collection, the remainder of the valuation process becomes questionable. If there is no confidence in the process the ratepayers will reject their valuation which will in turn lead to an unnecessary amount of time being set aside for appeals and objections (Wall-Smith, 2009).

2.9 National guidelines

Valuers must conform to the applicable recognised standards or guidelines (see Section 45 (1) of the MPRA), although exactly what "...recognised valuation practices, methods and standards..." means is not stipulated in the MPRA. In terms of the MPRA the MEC for Local Government is charged with monitoring the compliance of Municipalities (See Section 81 of MPRA), but the absence of national guidelines is problematic (Espach, 2008b). For example, in foreign countries such as Texas (USA) a Tax Code (TLC, 1979) is published and the market value of property is also determined by the application of generally accepted appraisal methods and techniques (TSD, 2000), but mass appraisal standards must comply with the Uniform Standards of Professional Appraisal Practice. Similarly, in the United Kingdom, the Valuation Office publishes guidelines for carrying out the valuation process.

The MPRA does not provide any instructions or guidelines as to the method municipal valuers should use to determine the value for petrol filling stations. Such national guidelines are clearly necessary to ensure uniformity (Espach, 2008b, personal correspondence). According to Welkom (2006), the City of Cape Town did provide guidelines to the valuers who valued petrol filling stations. They were instructed to attempt to establish current throughput of petrol and diesel sales. However, only two of the oil companies were prepared to provide details of that information to the valuers.

Lehobye (2008b) recommended that valuers undertaking the valuation of petrol filling stations should be guided by the Scottish Assessors Association's Guidelines (SAA, 2005a) that recommend the adoption of the comparative principle based on open market rents on or about the date of valuation, to ensure consistency (see Appendix C).

2.10 Petroleum industry

2.10.1 Background

The South African petroleum industry is regulated by government laws and regulations, unlike most western countries, where it is unregulated. Prior to 1954

all petrol was imported and distributed by Shell Oil Company (Royal Dutch Company Shell) because South Africa did not have any of its own oil refining facilities (Matsho, 2010). The first refinery was Mobil, now Engen and the Enref refinery in Durban. All distribution and marketing of the refined petroleum products was carried out by Caltex, Shell, Mobil and BP. Over the years, as demand increased, more refineries were established and the first oil-from-coal-synthetic fuel plant was opened in Sasolburg being Sasol One. In 1962 Shell and BP jointly established a second crude oil refinery in Durban and Calref crude oil refinery was commissioned by Caltex in 1966 on the coast close to Cape Town. In 1971, Natref was commissioned and is located in Sasolberg. Mossef is the only synthetic refinery using natural gas (Sasol, 2004).

In 1954, the South African Government secured the conclusion of agreements dubbed the Sasol Supply Agreement (SSA) and Main Supply Agreement (MSA). The agreement was effectively “government-brokered and a sanctioned form of private regulation which obliged the oil companies to service their marketing requirements in the inland. Sasol supply areas by purchasing all Sasol petroleum based upon the petrol volumes pro-rata to their market share. In return, Sasol limited its entry into the retail market with the location of Sasol-branded blue pumps on forecourts belonging to other petrol companies – this became known as the “blue-pump agreement” (Matsho, 2010: p.76). This principal of market sharing agreement between the oil companies, which was amended over the years as new inland refining capacity was brought on stream, effectively underpinned the regulation of petroleum products until Sasol terminated the agreement in 2003 (See Sasol & Others Tribunal Case No: 101/LM/Dec04 2005).

According to the White Paper on the Energy Policy of the Republic of South Africa (Department of Minerals and Energy, 1998) the Government has stated that the liquid fuels industry should have minimum governmental intervention and regulation so that the businesses can operate on a competitive basis. Since 1993 Government has been engaged in a consultation to investigate ways to deregularise the industry (DME, 1998: p.69).

Currently there are several major oil companies operating in South Africa, the biggest of which are BP, Caltex, Engen, PetroSA, Sasol, Shell and Total (Matsho, 2010). All these companies are integrated in South Africa and “operate at each stage of the supply chain, namely refining and production, storage, wholesale marketing and retail (Sasol & Others Tribunal Competition Tribunal Case No: 101/LM/Dec04 2005)” (Matsho, 2010: p48). There are “high barriers to entry and intense competition amongst players” (Matsho, 2010: p48).

The liquid fuels industry in South Africa is highly regulated. Currently there are licensing requirements and regulations pertaining to, among other things the importation and exportation of crude oil, petroleum products and blending components (SAPIA, 2010). In addition the operation of the petroleum pipelines and the setting of the tariff structures, storage facilities, loading facilities including approval of those tariff structures fall within these controls. Manufacturing of petroleum products, wholesale of fuels and the retailing of fuels, including the pump price of petrol by grade and location are all controlled as well as the recovery of transport costs, liquefied petroleum gas refinery gate price, the retail price for illuminating paraffin together with the retail and wholesale margins and the petroleum products specifications and standards.

2.10.2 Petrol filling station operational changes

As early as the 1940s companies recognised that changes were taking place in the industry as many marketers began to “experiment” with combining petrol filling stations with “drive-in banks” (Maddison, 1968: p31) and laundry facilities as well as investigating ways of addressing traffic flow (Maddison, 1968). These stores grew rapidly, especially in areas where new suburbs were too small to warrant a supermarket, thus creating niche markets (Bainbridge, 1990). Brick (Brick and Smith, 1978) noted that thousands of petrol filling stations have been converted into either partial self service petrol or total petrol service with fuel sales in combination with car-washing, petrol and groceries or even petrol and liquor.

Following worldwide trends, the petroleum industry has transformed in that the petrol station forecourts have been substantially improved to accommodate convenience stores. Vast changes are also taking place in the relationship

between oil companies and retail operators. According to Matsho (2010) there are different views in South Africa, where regulation and control remains as set out in the Lambrechts's Report (Lambrechts, 1996), which concluded that almost all respondents supported the idea of deregulation but labour "is basically in favour of the continuation of Government involvement but foresees a relaxation of certain aspects under certain conditions" (Matsho, 2010: p.91).

2.10.3 Price control and pricing of fuel

The Department of Minerals and Energy is responsible for gas liquid fuels, energy efficiency and renewable energy as well as the determination of the Basic Fuels Price (BFP). In terms of the Petrol Petroleum Act No.120 of 1977 (DME, 1997; RSA, 1997, RSA, 2007), the Minister of Minerals and Energy is authorised to determine the price or the maximum and minimum price at which any petroleum product may be sold.

"The petrol price in South Africa is directly linked to the price of oil and is quoted in US dollars per barrel at refined petroleum export orientated refining centres in the Mediterranean area, the Arab Gulf and Singapore. The domestic price of fuels is therefore influenced by international crude oil prices, international supply and demand balances for petroleum products and the Rand/US Dollar exchange rate" (DME, 2007a: p.1).

"The BFP is based upon the spot prices quoted daily on the international market and includes freight costs from refining centres in South Africa, demurrage (loading and discharging of petroleum products and the waiting time for tankers at harbour ports), insurance and minor shipping costs, the allowed value for product loss due to evaporation during marine transportation, wharfage (harbour landing charges), coastal storage to cover the cost of providing storage and handling facilities and stock financing" (see Appendix D).

In terms of Section 1 of the Petroleum Product Amendment Act, No 2 of 2005 (RSA, 2005) "wholesale" means the purchase and sale in bulk of petroleum products by a licensed wholesaler to or from another licensed wholesaler, or to or from a licensed manufacturer, or sale to a licensed retailer or to an end-consumer

for own consumption and 'wholesaler' shall be interpreted accordingly" (Petroleum Product Amendment Act, No. 2 of 2005: p.1). Working from the Basic Fuel Price, the pump price which is the price paid by the consumer is the total sum of the Governments' taxes and levies, wholesale margin, service differential, and zone differentials (see Appendix D).

The Wholesale Price is the maximum price oil companies are permitted to charge service stations or wholesale customers for fuel. The price of petrol is set at the end of each month and is the sum of all price structure elements except the petrol dealer margin.

In order to arrive at the retail price at the pump, the dealer's margin is added to the wholesale price. The dealer's margin is expressed in cents per litre, which Service Stations are permitted to add to the petrol price. This is updated regularly and is subject to the approval of the Minister for Minerals and Energy. In addition, pump rounding factors are applied to ensure that oil companies do not gain or lose by charging wholesale price levels in whole cents and so that service stations recover the full dealer margin (Sasol, 2004).

"The retail profit margin (retail margin) is fixed by the Department of Minerals and Energy and is determined on the basis of the actual costs incurred by the service station operator in selling petrol. In this cost structure, account is taken of all proportionate driveway related costs such as rental, interest, labour, overheads and entrepreneurial compensation" (DME, 2007a: p.1).

The pump prices of petrol and income margins available to both the dealer (the operator of the filling station) and oil company are regulated and varied periodically. However, the prices of diesel, jet fuel and liquefied petroleum gas are only partially controlled (DME, 2007b; Matsho, 2010).

The Competition Tribunal (Sasol, 2004), hearing the application by Sasol stated that in its view, the South African fuel market from the refinery level through to the level of the retail service station has been cartelised for many years (Sasol, 2004:

p.46 @ 122) “Sasol’s decision to terminate the MSA (Membership Supply Agreement), the cartel agreement that dominated fuel markets for so long, has led, inevitably, to an outbreak of competition in the oil markets, circumscribed, of course, by continuing regulation of the pump price of petrol. Government is however committed to de-regulating this vital market as well and so, all things being equal, the competition that has broken out upstream will extend to the downstream as well. Competition in the retail markets will feed back to the wholesale markets as is already evidenced by Sasol’s discounting of the wholesale price to its Exel retail outlets” (Sasol, 2004: p.178 @ 524). “The Main Supply Agreement (MSA) was in effect the market sharing agreement entered into by the participants in the cartel, with the price of the refined product being based on the import parity or Basic Fuel Price (BFP) which was then used to build up to the wholesale price and retail pump price (Sasol, 2004: p.46 @ 122). The fuel markets lend themselves to the formation and maintenance of cartels” (Sasol, 2004: p.179 @ 526).

“The Tribunal’s view was based upon the fact that the structure of petroleum markets is oligopolistic, *i.e.* there are few sellers and a small number of competitors control the market. The products are homogenous and technologically mature. Entry barriers into the industry are high and the cost structures of the various oil companies are similar...” (Sasol, 2004: p.172 @ 526).

2.10.4 Site licence and ownership

There are various Acts that affect the petroleum industry in South Africa (Matsho, 2010).

In terms of the Petroleum Products Amendment Act 58 of 2003 (PPAA), the establishment and operation of a retail petrol station site and the acquisition of a licence to operate a site, *i.e.* trade in fuel and are subject to extensive administration procedures. A retail licence is not transferable and is confined to a specific site in terms of Section 22 (7) of the Regulations regarding petroleum products site and retail licences Petroleum Act 1977.

Oil companies which are the wholesale suppliers of petrol may not hold a retail licence to enable them to sell petrol directly to the consumer, nor may they operate the petrol filling stations, except for training purposes (Section 2A (5) (a)) of PPAA). The Department of Minerals and Energy has noted three types of petrol filling station ownerships and operations, namely: -

- a) Company owned and operated (“COCO”);
- b) Dealer owned and dealer operated (“DODO”)
- c) Company owned and dealer operated (“CODO”)

According to the Department of Minerals and Energy, 80% of petrol filling station sites are owned by the oil companies (Department of Minerals and Energy, 2007).

The Petroleum Charter signed in November 2000 “...triggered re-regulation of the oil petroleum and liquid fuels industry...” (Matsho, 2010: p.77). The signatories committed themselves to promote the empowerment of historically disadvantaged South Africans (Matsho, 2010). According to the provisions of this charter, changes in the allocation of site licences were to be implemented (Mason, 2003). It was anticipated that by 2010 the government intended to ensure that 25% of the petrol industry would be in the hands of BEE (black economic empowerment employer). The number of sites would also be limited to 5000 (Baker, 2007; DME, 2000; Matsho, 2010: p.208).

There are various forms of petrol filling site ownership. For instance, a site could be independently owned and the oil company would then enter into a head lease agreement with the landlord whereby the premises are usually rented on an open market basis in competition with other oil companies or property investors seeking alternative usage for the site (Baker, 2007). In this scenario, the oil company enters into a tied lease agreement with the operator. The rental payable by the dealer would comprise a portion of the wholesale margin of the fuel based upon the potential of the forecourt earnings and the status of the facilities, *i.e.* the behind the pump operations, *e.g.* workshops, convenience stores, car washes, *etc.*

Alternatively as oil companies may not hold a retail licence, they would lease the site directly to an operator. The oil company could enter into variety of other agreements including a franchise agreement or product agreement between the operator (dealer) and the oil company (Baker, 2007; Baker, 2004a; Naish, 2004). The difference between the dealers bid for premises and the petrol company's bid is that, while both are interested in the same property, the petrol company is usually only interested in the wholesale marketing of its products, while the dealer is essentially a retailer (Sedgwick *et al.*, 1969).

Although there are other forms of agreement that affect the operation of petrol filling stations, e.g. franchise and royalty agreements, may contain various incentives for the operators, these do not appear to be taken into consideration by the municipal valuers when performing municipal valuations, as the concentration only appears to be on the sales of fuel on the forecourt.

2.10.5 Valuation approaches

Sedgwick *et al.* (1969) in his study observed that the petrol industry had remained the same for many years. Petrol companies usually did not acquire their properties as investments, but merely as outlets for their products and were therefore prepared to accept lower than normal rental yields on their property holdings. The methodology of estimating tied rentals also varies between the oil companies as some may not grant rebates to tied tenants on the petrol purchaser's (Sedgwick *et al.*, 1969).

"Each fuel company appears to have its own focus, often stemming from directives of their international head offices. Some value their retail sites as key in their activities, whilst others place more emphasis on the supply at the refinery level. For example, CoRo (Company Owned, Retail Operated) used to be the preferred model for some fuel companies where they wholly owned the site and had a retailer manage it as a tenant. In the current economic environment, with rationalisation and an emphasis on specialisation, several fuel companies prefer to give retailers the opportunity to own and run their own site whilst protecting the brand through stringent clauses in the lease agreement that prevent other fuel suppliers from benefitting from the site or equipment" (Kuper, 2010: p.1).

According to Kuper (2010), "... if the site shows poor performance and is no longer considered a viable investment, the fuel companies are closing them after the necessary environmental clean-up and removal of all underground equipment and residue. Once environmentally compliant, the sites are offered to the market for alternative usage on condition that they are not re-opened or used as a competitor site, often for up to 20 or 25 years" (Kuper, 2010: p.1).

When determining the value of the convenience stores and other behind the pump facilities, which are usually the retail and workshop operations, the value should be based upon the rentals of comparable properties and therefore valued as a "value in use", unless it is observed by the Municipal Valuer that there is potential for an alternative use. Although this may produce a higher market value this may not necessarily have been so (Weichardt, 2008).

According to Baker (2004a) whereas the oil company's local outgoings involve the costs of refining, distribution and management of the industry, using the wholesale margin as income, the dealer's expenses are quite different in nature (Baker, 2004a: p.13). These expenses include the expense of forecourt staff, insurance, running an office and all the business expenses of a retail sales operation. As the dealer's profit is limited, he is unable to afford the same level of rental for his forecourt that an oil company can pay on the open market. This market differentiation is peculiar as a dual rental is payable in the market for the very same property, *i.e.* a head lease and the tied lease rentals. The tied lease rental is not only limited by these considerations as it is also affected by the fact that it derives benefits and liabilities, by way of special financing facilities and subsidies on products. In a tied lease there are also stipulations regarding the nature of the products sold and the management of the dealership.

Consequently, although the facilities in a tied lease justify the same rental as would be applicable in a head lease, the dealer cannot afford to pay an open market-related rental for the forecourt and forecourt improvements out of his retail margin. The rental thus paid in terms of the tied lease, is determined by the oil company on a formula based upon a rate per litre of fuel sold by the dealer. The

tied rental is therefore not relevant to market valuation and in practice the valuer is rarely called upon to assess a fair tied rental which, strictly speaking, is more of an accounting exercise dependent on the efficacy of the individual business (Baker, 2004a).

2.10.6 Retail site operations

The Competition Board has summed up market behaviour of oil companies by stating that fuel retailing and the critical decisions that drive the competition in the fuel industry are clearly made by the oil companies. The oil companies, whose brands are carried by the respective retail networks, are not carried by the individual service station operators “who strike us as being little more than glorified branch managers” (Sasol, 2004: p.162 @ 498). The selection of the sites and the level of investment in the sites are all oil company decisions.

The Competitions Board understood that the advertising and promotion of the products are the responsibility of the brand owners and the fuel companies. Furthermore, “...the pricing decisions are largely in consequence of the fuel company’s control of the wholesale price, the most important element in the makeup of the retail price...” (Sasol, 2004: p.163 @ 498).

According to Plato (2006), who researched the petrol industry in the UK between the periods 1994 to 2004, the number of UK petrol filling sites had reduced from 16971 to 10351. Of these, the company owned sites reduced from 6688 to 3942. A number of petrol sites had come onto the market over the preceding couple of years, which had been sold at public auctions and sites were also sold with “their development potential, but without the benefit of planning permission...” (Plato, 2006: p.6). In South Africa, petrol filling station sites are often auctioned and used for alternative purposes, more specifically for redevelopment.

2.10.7 Branding value

In extreme cases, petrol companies will pay twice as much rental for a forecourt than a dealer would (Sedgwick *et al.*, 1969). According to Johnson (1971) the oil companies would agree to pay a rental that is likely not to exceed the income

generated by the minimum throughput. However, it was not uncommon practice that the oil companies paid very high prices for special sites (Johnson, 1971).

The branding of the petrol fillings station sites is maintained through the stringent conditions contained in the lease agreements. These lease conditions prevent other fuel suppliers benefitting from the site or the equipment. Where the site shows poor performance and was no longer considered a viable investment, the fuel companies close them up. This is done once the environmental clean-up in terms of the National Environmental Management Act, 1998 (RSA, 1998), which requires the removal of all underground equipment and residue from the site. Thereafter, the sites are sold for the alternative usage on condition that they are not re-opened or used as a competitor site, often for up to 20 or 25 years (Kuper, 2010).

In the valuation of petrol filling stations it is difficult to establish the value the oil company would allocate to branding. A high profile site with low throughput may pay a high rental merely because of the position that it commands. This would not be passed onto the operator and would be considered as part of the marketing costs of the oil company.

2.10.8 Environmental considerations

As previously stated, the allocation of sites for the sale and distribution of oil products is controlled by legislation. The control over the distribution and disposal of sites, as well as the improvements thereon, has, over the past years, resulted in service station sites being required to undertake environmental assessment studies in terms of the Environmental Conservation Act 73 of 1989 ("ECA") (RSA, 1989) and the National Environmental Management Act 107 of 1998 ("NEMA") (RSA, 1998).

The financial investment in obtaining filling station rights in the current regulatory environment can be substantial involving considerable risk and delay, and ultimate success is not assured. The former quota system, whereby an oil company could develop a new site, in return for decommissioning an existing site no longer applies (Baker, 2007). There are extensive environmental issues that are required

for establishing a petrol filling station. Section 24(a) of the Constitution guarantees a fundamental right to everyone "...to an environment that is not harmful to their health and well-being". To realise this right, Section 24 (b) imposes positive obligation on the State to protect the environment "through reasonable legislative and other measures that prevent pollution... while promoting justifiable economic and social development".

For a filling station to be established, a scoping report is required in compliance with Regulations 1182 and 1183 (Government Notice R1182 and 1183 contained in the Government Gazette of 5th September 1997), which are published in terms of ECA and NEMA. The construction of the fuel storage tanks is a listed activity that has a substantial and detrimental effect on the environment. This is contained in the rules and needs to be addressed when compiling an environmental assessment on the land in terms of Section 21 of ECA.

In terms of NEMA which, when established introduced an extensive list of principle decision-making provisions that affect the environment, including that fact that the development of the petrol filling station site must be socially, environmentally and economically sustainable (Fuel Retailers Association v DG, Environmental Management, Mpumalanga [2206] SCA 109 RSA – Case No. 530/05; MEC for Agriculture, conservation & Environment & Land Affairs v Sasol Oil (Pty) Ltd & another APS 368/04).

2.10.9 The nature of the service station and site viability

A typical petrol filling station comprises two main areas most commonly being the forecourt and the behind the pump facilities. In essence, a filling station consists of storage tanks where fuel is stored and petrol pumps through which fuel is pumped (Judge Cachalot AJA @ 16 -MEC for Agriculture, Conservation & Environment & Land Affairs v Sasol Oil (Pty) Ltd & Another APS 368/04). The forecourt is the area located between the street frontage and the workshops. Customer parking and the supplying of fuel are services usually located in the forecourt. Typical forecourt components would comprise the petrol pumps (fuel dispensers) and the pump islands on which they are located. In addition, this would include the petrol

attendant's kiosk, the cash kiosk and customer parking areas. These improvements relate solely to the sale of fuel on the forecourt (Welkom, 2007).

Behind the pump facilities are all of the areas located beyond the forecourt and are comprised of the workshops, convenience store, administration offices and public toilets. The facilities of the petrol filling station operation may differ between the various operators, but this serves as a typical guideline (Naish, 2004). The average optimum erf size for an urban service station is between 2500 m² and 3000m² (Welkom, 2007). The components of the petrol filling station may differ between the various sites, with the average optimum land size for an urban petrol filling station, being between 200m² and 3500 m² (Baker, 2004a).

Typical characteristics of a petrol filling station site are off-street parking and/or convenient pedestrian access, as well as extended store hours of the convenience store operations (usually 24 hours, seven days a week). The stores typically have a good product mix, including grocery title items as well beverages, reading material, snacks, tobacco and various other retail products. The larger convenience stores are often coupled with franchised restaurants (Brainbridge, 2003).

Petrol filling stations are classified either as high (exceeding 350 kl/month) or low throughput sites. High throughput sites are generally more sought after by prospective purchasers than a low throughput sites (Baker, 2004a). Typically petrol station sites are located in various areas such residential and industrial, shopping centre, urban areas, business districts, highways and truck stops. Additionally there are sites for future market expansion (Maddison, 1968).

In South Africa, the convenience store is found in addition to the neighbourhood grocery store with many stores offering co-branded fast foods, banking and other facilities. There are primarily six types of convenience stores, being: kiosks; mini and limited convenience stores; and the traditional, expanded and hyper stores. BP express South Africa has publicly stated that their "goal is to be a destination store for consumers". Caltex has noted that the "move by petrol groups into

retailing is driven by consumer demand and thin profit margins resulting from regulation of fuel prices” (Classen, 2001).

Maddison (1968) noted that the topography of the site was very important to ensure that the site was economically viable. The petrol filling station site should have a reasonable land grading with the street, *i.e.* the site should be on reasonably level land especially for ingress and access, refuelling and testing oil (Baker, 2004a).

The provision of services, *e.g.* borehole water or conventional supply, and site access, *e.g.* curbs and setbacks, corner radius (more than one access to the street) all form part of the site reticulation. In addition to the physical and topographical characteristics, site exposure, traffic flow and demographics are all important characteristics (Baker, 2004a). It has become apparent in the future valuation of petrol filling stations that some sites are weighted more towards all petrol sales based, while others have more sales being generated from within the convenience stores (Bainbridge, 2003).

2.11 Valuation methodology – petrol filling stations

This literature review focuses broadly on the valuation methods that are used by valuers for the valuing of petrol filling stations and the methodology used when undertaking the General Valuation Cape Town 2006.

The International Valuation Standards Council (IVSC, 2005b) standards refer to “valuation approaches” or valuation methodology, which are the general accepted analytical methodologies in common usage (IVSC, 2005b). The income approach and cost approaches may be applicable, but would have certain limitations (Brick and Smith, 1978). Sedgwick *et al.* (1969) noted that the most common methodology used for the valuing of petrol filling stations, for both rental and capital purposes, is to value the buildings and plant and add thereto the value of the forecourt that is calculated on the throughput of petrol (Sedgwick *et al.*, 1969). This is similar to the methodology that is applied in South Africa and is termed either the Throughput Method or Profits Method of valuation. The methodology

was similarly used for the GV 2006 when determining the municipal values for the petrol filling stations in Cape Town (Welkom, 2007).

According to Baker (2004a), the various oil companies have different criteria in arriving at site values. In practice, according to Weichardt (2008), when valuing petrol filling stations within a limited valuation budget allocation and within a limited period of time, a uniform method of valuation had to be applied. Baker (2004b) referred to the valuation of a petrol filling station as being a specialist exercise. There are three different elements to the process, being the accounts approach in respect of the petrol sales on the forecourt, a cost element of the forecourt improvements and an income based valuation relating to the rental value on non-petroleum improvements.

The MPRA, according to Espach (2008b) does not provide any instruction or guideline to municipal valuers in determining the valuation of petrol filling stations. This is a shortcoming, as national valuation guidelines need to be implemented to ensure that nationally properties are valued equitably.

2.11.1 Market data approach (sales comparison approach)

The Market Data Approach is essential in most property valuations (Appraisal Institute, 2001). This methodology is also known as the market approach (Maddison, 1968; Brick and Smith, 1978) and the comparative method (Sayce *et al.*, 2006) both of which are based upon the comparability of the properties. Brick (Brick and Smith, 1978) considered this approach to be the most accurate estimate of fair market value for a service station (Brick and Smith, 1978). It was also stated to be most acceptable and enduring (Lynam, 1987).

Maddison (1968: p.36) has noted that valuers working in government departments are not knowledgeable in valuing petrol filling stations, which are considered to be specialised property. The valuers do not weigh up the market factors thoroughly, *i.e.* market data of comparable special service station sites and the opting for the income approach method, which are not realistic (Maddison, 1968). Special-purpose or special-use properties are conceived by valuers to be significantly different from a typical property type and those that are unusual and have few

possible users (Albritton, 1980). The International Valuation Standards Council (IVSC, 2005b) refers to property of this nature as seldom being sold except as a sale of a business that is partially due to the specialised nature of the entity. Service stations doing a profitable business seldom sell on the market (White, 1973: p.476).

Albritton (1980) referred to the concept of “limited market use” as opposed to special properties. This was based on the concept that if there are sufficient sales and lease data to suggest that a reasonably active market exists for the continued use of the property as a service station, then the property would be classified as having a limited market. Where there are seldom sales or leases, the property would be considered as being a special use property (Albritton, 1980). The Courts have defined “speciality properties” as being “... a structure which is uniquely adapted to the business conducted upon it or use made of it and cannot be converted to other uses without expenditure of substantial sums of money (See *Great Atlantic & Pacific Tea Co. V. Kiernan*, 42 N.Y.2d 236 (1977)) and “Special-purpose property is most easily understood in terms that cannot be converted to other uses without large capital investment such as public museum, church, or a highly specialised production facility like a brewery” (Neely and Rendleman, 1997: p.4).

The case is made that the quality and quantity of comparable properties of comparable issues is a key to all comparative valuation and that when comparable properties cannot be applied directly all adoptions are intuitive (Baum and Crosby, 1995; Sayce *et al.*, 2006). It is often that in the identifying of comparable features when undertaking a valuation, the valuer needs to concentrate on the valuation attributes of the respective properties and select properties with similar characteristics. For example, it is unlikely that a filling station with a convenience store on a busy thoroughfare can be comparable to a site in a small residential area, with low throughput and a small workshop. Brick (Brick and Smith, 1978) noted that this approach would be different when a filling station is located on a highway that could extend for several kilometres. With toll roads and national roads the location of access and exit points are important.

The sampling of available property is very important and ideally petrol filling stations with similar characteristics that may have been sold or leased should be sought, noting the information pertaining to selling price, the date of sale, size of the site and physical facilities. It was noted that the scarcity of sites does affect the value (Brick and Smith, 1978). When identifying comparable property there is an element of judgment involved Brick (Brick and Smith, 1978) having regard to identifying those elements that bear a relationship to the subject property.

The greater the number of similar attributes, the easier it becomes to address the comparisons and to estimate the value. The comparable properties should have similar conditions, *e.g.* zoning and title deed conditions. Where a service station has an alternative highest and best usage, it “must be appraised as if it were put to such other uses” (Brick and Smith, 1978: p.952).

The asking prices of petrol filling stations for sale on the market should be obtained, as value is affected sharply by their scarcity. Brick (Brick and Smith, 1978) noted that it is pertinent when estimating the value of the property that the comparable data and prices are to be noted in the estimation of value. The length of time that the property is offered on the market and the difficulties in securing a site licence should be noted, as this could increase the value of the site (Brick and Smith, 1978).

The valuation attributed to the petrol filling station should take into account the adequacy of size of the site and the potential neighbourhood business. The grade of the street and the surrounding topography as well as the visibility from the roadway and compatibility of traffic, all need to be considered together with the location (Brick and Smith, 1978). This value would be based upon the Throughput Method, as it is attributable to site and potential business. Poor management of the site, which could affect the volume of petrol sold, can also affect the potential of the operation. An indication of the potential not being realised will likely be ascertained if the interception rate is considered to be below the average for the neighbourhood area.

Location factors that influence value are either macro or micro. Macro factors relate to the accessibility and visibility of the site include the traffic volume, position, relation to main roads (including train and bus terminals) and the population. Micro factors take into account the immediate neighbourhood surroundings and sites, poor turning and access off extremely busy roads (Plato, 2006). Properties used for comparative purposes must also be reasonably similar to the property under appraisal (Brick and Smith, 1978: p.959).

The land is valued by similarly using the market data approach as the sales are analysed and adjusted for "...similarity to the subject" property (Townsend, 1975: p.227). Should the site be suitable, a typical buyer would not base the value on a rate per square metre of land value "... but in terms of site cost". The market for a service station does not necessarily emphasize unit value. In, comparing properties in a service station evaluation, the valuer tends therefore, to balance site against site rather than unit value against unit value" (Brick and Smith, 1978: p.959). According to Townsend (1975) the analysis of petrol filling station sites includes the economical, legal and social factors that may influence the value and he recommends that where there was insufficient comparable data available the ground rent should be used and capitalized into a present value.

When land is valued for special use properties, the Valuer is confronted as to whether the land is valued "as if vacant and available for redevelopment to its highest and best usage, or to estimate the value assuming the existing land use" (Albritton, 1980: p.368). In fact, it is uncommon for improved service stations to change hands for continued use, but when these sales take place they are predominantly within the same oil company or brand and such sales are not reliable indicators. When comparable sales data is available they are not reliable market indicators (Townsend, 1975: p.227).

The non-disclosure or provision of information by the oil companies and operators remains problematic (Weichardt, 2008; Espach, 2008b; Welkom 2006). Weichardt (2008) indicated that when information had been received by the City of Cape

Town it was very limited and the information provided related mainly to the throughput. The problem is not unique to South Africa, but it was often only obtained after the initial valuation had been released and the owner had objected to the valuation on the roll (O'Donoghue, 2008). Notably, no independent overview or quality checks of petrol fillings stations were carried out for the Cape Town's 2006 General Valuation (Weichardt, 2008).

In the United Kingdom, the problem appears to have been overcome. In the past, a ratepayer disclosed whatever he wished to and would usually only provide the accurate information when making a point, *i.e.* when submitting an objection, but the Profits Method was still applied (Brown, 2008). The introduction of statutory requirements now compels disclosure and the owner must disclose the throughput on the "Forms of Return" (Rating-manual-UK, 2007). The adoption of this type of approach has the ability to certainly improve the reliability of valuations within a computer assisted mass valuation approach, especially where the three past years of accounts can be reviewed for continuity in the operation. However, that would be at the discretion of the municipal valuer.

Although the comparable market method of valuation has wide implications as a method of estimating value and is of primary importance where applicable, there are factors that may limit its usefulness. However, this method would provide the fair market value of an oil petrol filling station (Brick and Smith, 1978).

2.11.2 Income approach

The Income Approach Method of determining value is applied to income producing properties and is not practical in the appraisal of properties for which a rental market or a rental value cannot be identified (Appraisal Institute, 2001). "To base a gross rental on existing gallons of on existing gallons of the operation is fraught with peril, although certainly past history of gallonage can be a significant factor in establishing the gross rental figure. The accuracy of setting a gross rental value depends on the appraiser's knowledge of the industry and on his study and analysis of the market" (Brick and Smith, 1978: p.961). Where the valuation is based upon the litres sold this would be tantamount to the profit or accounting method being applied. Where the property is subject to a long-term lease, the

income approach method is helpful in arriving at an accurate estimate of value (Brick and Smith, 1978).

Maddison (1968) regarded the income approach method as unreliable because petrol filling stations were special purpose properties and therefore not sold on the basis of rental (Maddison, 1968). This opinion differs from Townsend's (1975) who noted that this approach is often used to determine the market value of an existing petrol filling station and is also referred to as the capitalisation method (Townsend, 1975).

In applying the income approach five key points are identified (Sayce *et al.*, 2006: p.13): the passing rental; the estimated market rental; the valuation yield (s); the cost of undertaking the transaction; and the vacancy period. In a petrol filling station valuation, the open market rental should be the rent that the oil company pays the owner (landlord), *i.e.* not that paid by the dealer. Both Townsend (1975) and Sayce *et al.* (2006) included the costs of acquisition of a property when performing an income approach method of valuation. This is not a consideration when determining the valuation using an income approach as practiced in South Africa, although it may be a consideration by the purchaser when acquiring the property. While the income valuation process undertaken for a petrol filling station includes the valuation of the physical assets and the operating skills of the operator and the oil company, separation of income derived from each source is difficult (American Appraisal, 1974).

Where sites are owned by private individuals and are leased by a major oil company there is a lease provision that usually provides for a rental review together with tenant's obligations (Brick and Smith, 1978). This is customary with many long-term leases where periodic reviews are provided. Operating costs, *i.e.* maintenance, rates and taxes and insurance premiums can be paid by the tenant, in addition to the basic rental charged by the oil company.

In New Zealand, the potential and location as it relates to determining the market related rental for the behind the pump facilities or non-fuel related activities was acknowledged as forming a very large component of the total valuation of service

stations. Stores were open for longer hours than traditional convenience stores. Service stations provided a wider range of products, not just fuel and the margins on fuel were “being squeezed” (O'Donoghue, 2008: p.2).

2.11.3 Cost approach method

In this approach, a valuer would obtain a preliminary indication of the value of the property by estimating the value of the land and adding thereto the estimated reproduction costs of the building and other improvements (Appraisal Institute, 2001). Thereafter, the valuer would deduct all forms of accrued depreciation *i.e.* physical deterioration, functional obsolescence and economic obsolescence (Townsend, 1975). The estimated reproduction cost would relate to normal construction costs as at the date of valuation. The identification and quantification of depreciation will remain a complex issue for assessors and valuers (Grad, 2009: p.5).

The application of this method in the mass appraisal of properties produces one of the most difficult challenges in the determination of new replacement cost, depreciation and obsolescence (Grad, 2009). Accrued depreciation may be defined as the “...difference between reproduction costs and market value.” (Grad, 2009: p.8). The remaining loss in value or differences between new and market value can be caused by various elements of depreciation or a combination thereof (Grad, 2009).

The cost approach method is not to be heavily relied upon when valuing an existing service station. However, if the highest and best usage of the filling station calls for conversion to some other use, functional obsolescence of existing improvements is measured by the cost to convert the building (Brick and Smith, 1978). As a filling station is a special purpose building the valuer is compelled to place the most weight on the cost approach (American Appraisal, 1974).

Special purpose or specialised properties which are seldom sold on the open market, *e.g.* oil refineries, churches, power stations, *etc.* would be most commonly valued using the depreciated replacement cost method (DRCM) (Millington, 2003: p.141). The method has been considered as an appropriate method and was

found to be most useful with new structures, but in respect of older structures, changes to physical function and economic obsolescence must be made (Lynam, 1987). The method should only be used when there is a lack of market evidence (Sayce *et al.*, 2006: p.15).

In considering whether a DCRM of valuation would be acceptable for valuing a petrol filling station for municipal purposes, Weichardt (2008) agreed with this method being more equitable. However, Weichardt (2008) was concerned as to how economic obsolescence would be addressed, as he was not familiar with this approach. In Weichardt's (2008) opinion the only way in which one could determine the rate of depreciation for economic obsolescence would be to address both the cost of construction and the market value of the property based on the income in order to determine the economic obsolescence (Weichardt, 2008). But, as the rentals were influenced by throughput, the income was taken into account (Espach, 2008a). Depreciation is not necessarily related to age (Grad, 2009: p.8). It is ultimately the value that the market assigns to depreciation or the loss in value from any cause, in a property.

In applying the DRCM method only physical depreciation is considered and the other elements being economic and functional depreciation are understated or ignored. The DRCM should be used as a control valuation and the depreciation must be derived from the market. In order to test this theory, the Profits Method will most likely be the best method to use if highest and best usage is also considered (Espach, 2008b). In previous general valuations, the use of the DRCM method as a control measure was applied as a checking mechanism although an investment approach to valuation was used (Espach, 2008b). O'Donoghue (2008) suggested a second check where when the two approaches are used, a comparison should be made between similar service stations already appearing on the rating valuation roll in order to maintain consistency.

Service stations usually have a life span of between fifteen and twenty years (American Appraisal, 1974: p.5). Obsolescence, in addition to the physical depreciation of the buildings, will have a major impact on the property. This

depreciation is often caused by the diversion of traffic caused by, e.g., new highways, change in traffic patterns, competition, population shifts (American Appraisal, 1974). Albritton (1980) expressed the view that the cost approach was historically applied by valuers when valuing special use properties and that it is "...fraught with weakness..." as a result of the land value and the depreciation being estimated (Albritton, 1980: p.368). According to Orgel (1958) the replacement cost method was rejected as a measure of market value, but it was often used as the basis for valuation of specialised properties. It was suggested that cost, as evidenced by market value should be restricted to situations where the property was unique, special and there was sufficient proof that there was an absence of market data (Sackman, 1985).

Adequate markets typically do not exist for specialised properties. If the property's value needs to be determined as a special purpose property, the valuer would typically use the cost approach. The courts generally upheld it as a reasonable method of estimating market value (Neely and Rendleman, 1997).

The replacement cost method has enjoyed little acceptance in our Courts except where it is specifically required, e.g. Acts and the old Valuation Ordinances (Jonker, 1992). In *Pietermaritzburg Corporation v SA Breweries* 1911AD 501 at 507, 524, it was held that the cost of a building less depreciation is not a fair basis of valuation" and that "the present cost of erecting a building bears no relationship to the market value of the building". It was rejected in several subsequent cases (*Union Government v Gass* 1959 (4) SA 401 (A) at 411; *Minister of Agriculture v Federal Theological Seminary* 1979 (4) SA 164 E). However, in some subsequent cases the methodology did obtain some recognition. In the case of the *Minister of Water Affairs v Mostert and others* 1966 (4) SA @ 690 (A): - "in determining the fair value of improvements, the cost of construction would be a relevant factor, but would not be conclusive proof of the fair value thereof ...". "At best, the replacement cost may be seen as a guide to value in certain circumstances" (Jonker, 1992: p 108-109). The goal of the assessor is not to determine cost, but its value. Cost is merely an avenue to value in this approach (Collins, 1996: p.9).

According to Townsend (1975) the cost approach method was frequently used in the valuation of service stations, especially for tax assessment purposes, but there were limitations, especially in instances when valuing old service stations where there was the difficulty of assessing the accrued depreciation (Townsend, 1975: p.228). The authorities do not have the time, resources or expertise to determine replacement cost and the various forms of all properties within the jurisdiction (Grad, 2009: p.9). This methodology would apply where the value of the forecourt is to be determined, based upon a depreciated replacement cost method. Economic life expectancy of service station improvements generally ranges between 20 and 25 years (Johnson, 1971: p.438).

There are various methods of measuring depreciation. Derbes (1997) recommended that curable physical deterioration and curable functional obsolescence should be deducted after all the other various types of depreciation have been addressed. "Redefining accrued depreciation and reordering its application in the cost approach will improve the valuation process. The emphasis to date in accounting for accrued depreciation has been to estimate the difference between cost and value by referring to sales rather than to refine the breakdown method of measuring causes of accrued depreciation. The difficulty with using sales data to obtain the total overall depreciation is that frequently there are not enough sales to make a reliable estimate, and where sales exist, there are vast differences in location, and in the physical and economic aspects of the sales. When it is necessary in the sales comparison approach to develop a breakdown analysis of the comparable sale to ascertain the causes of total accrued depreciation, it is also necessary to break down the types of depreciation of the property being appraised" (Derbes, 1997: p.1)

Functional obsolescence represents identifiable and measurable items of diminution in value due to utility or start changes not included in the baseline depreciation (Derbes, 1997). Functional obsolescence becomes apparent when the building does not comply with the modern requirements of planning (Jonker, 1980). It is a lack of desirability in utility, style or design compared to a new property designed for the same function (Appraisal-Institute, 2001) or a "loss of

value in ability of the structure to perform adequately the function for which it was used. Functional obsolescence results from changes in demand, design and technology ... ” (Eckert, 1990: p.220).

According to Cochran (2004), “economic obsolescence is a condition or a collection of various conditions identified beyond the physical condition of the actual property itself. These conditions cause an artificial devaluation of the property above and beyond normal depreciation” (Cochran, 2004: p.1) “Physical, social, financial, and political factors that affect the use and enjoyment of the property need to be analysed in total, rather than estimating the value impact of isolated factors” (Derbes, 1997: p 4). The difference between the land value being the optimum use value of the site and the site value for the subject property’s use type for “...an ideal site is economic obsolescence” (Albritton, 1980: p.369). In order for there to be a diminution in value, there needs to be a negative influence and the likelihood that the factor does in fact exist (Derbes, 1997).

Causes of economic obsolescence relating to petrol filling stations would be changes in traffic patterns, restrictive ordinances and competitive conditions (Townsend, 1975). In addition, changes in consumer spending, conditions within the oil industry in general, increasing property values which force alternative development to highest and best usage and socio-political conditions affecting community peace, will all have an effect on the economic obsolescence (American Appraisal, 1974).

Cochran (2004) specifically identified instances where economic obsolescence, negatively impacts on the value of the property. This was influenced by noise pollution, which is applicable to property located near to freeways, agricultural land and manufacturing plants. In addition, he, (Cochran, 2004) identified ecological damage as a claim for loss of trees, destroying of natural foliage and flooding arising from displaced buildings when on the sites. In addition, traffic congestion emanating from residential areas that are being swamped with additional vehicles, especially where they become concentrated, places a burden the existing streets, freeways and traffic ways. “The court recognizes that traffic congestion is a

problem that would negatively impact on the value...” of property (Cochran, 2004: p.70).

The determination of economic obsolescence can, according to the Appraisal Institute (2001) be calculated by either capitalizing the income loss attributable to the negative influence, or the sales comparison of similar properties that are subject to negative influence with those that are not (Bottum, 1988).

The ratepayer will most likely raise the objection when the value has been determined according to the replacement cost method of valuation that the depreciation rate allocated to the building component depreciated faster than what the valuer has allocated. In addition to physical depreciation, “changing external environments” which cause “external obsolescence” (Cochran, 2004: p.1) will affect the fair market value of the property. Physical depreciation can be cured by a quantified analysis of the costs required to cure the obsolescence, the excess operating of the utility and the effects of external factors on the present or future use associated with the property (Cochran, 2004). In determining the value of a property where external obsolescence needs to be calculated, the obsolescence is paired with sales data analysis. Properties that are subject to negative influence are compared with similar properties without the influence (Derbes, 1997).

An alternative method of addressing obsolescence when valuing a property is to compare the rental of properties that were leased out with the negative influence that prevails and determine a value on the basis of using appropriate capitalisation methods in order to convert the rental income into a value loss. However, in the absence of sales and rental data, other forces external to obsolescence such as physical, social and political forces would have a bearing on the properties value. These additional forces must be considered by performing an objective study as to the effect on the value (Derbes, 1997).

In New Zealand, when performing valuations for rating purposes petrol filling stations in terms of the Rating Valuation Act 1988, the DRCM method can be used although the Income method is preferable. The DRCM method can overstate the

added value of the improvements given to the land, which would result in a capital value being above the market value in exchange. Assessments are based on a market approach, which is determined as “value in exchange” (Eckert, 1990: p.40). However, when given the rather simple building structures that now comprise a service station, the key is really to ensure that the land allocation is correct, as this is the largest component of the property value within the cities (O'Donoghue, 2008).

Sample case studies were provided by Quantum Value Limited, a company based in New Zealand (O'Donoghue, 2008), involving two service stations, which were valued on an individual basis. The one service station was located in the Wellington Region and the other from Waitakere City, a large metropolitan area: -

(i) Waitakere City Valuation

The purpose of the valuation was to provide a basis of valuation of service stations for Rating Valuations purposes.

The report identified the changing trends where modern service stations had moved away from the behind the pump facilities being lubrication bays and workshops to convenience stores, trailer hire, Cafe's, restaurants, *etc.* According to O'Donoghue (2008), the profits from these facilities were often greater than the profits generated from the fuel sales.

Land is valued as vacant assuming the highest and best usage of the site. The service stage is valued using the investment approach and the replacement Cost approach as a check method. After using these two approaches, comparison to similar service stations already on appropriate Rating Valuation Roll should be used as a check to maintain consistency.

(ii) Wellington Region

In this report, the replacement cost method was applied based upon the costs to replace the existing buildings less any depreciation/ obsolescence. The land is considered at full value. Alternative uses and redevelopment

potential had been considered. Petrol stations in secondary or fringe locations had found it difficult to maintain the fuel supply as portion of the businesses relied more on workshops and other activities.

The improved value was determined by a range of multipliers and the value of the forecourt was determined at cost and a model rate was applied based on the average of the whole site. Depreciation /obsolescence were based on newer buildings at 2% per annum and older buildings at 1% per annum with a maximum of 40% allowed. Special consideration was given to the highest and best use of the site, over scaled workshop space, outmoded design, and the additional land component. In valuing land, it is considered at its full value taking into account its underlying zoning and existing use rights. It is of specific note that the land values need to be cross-referenced with the local commercial and industrial bases. This takes into account the highest and best usage for the site. Any rear land should be valued at a lower rate than the main forecourt (O'Donoghue, 2008).

In the hearing of British Columbia Canada of The Molson Companies (Appellant) v Assessor of Area 9 Vancouver 6th December 1979, the Assessment Appeal Board stated that: "The Board is most sympathetic to the plight of the Assessment Authority in any attempt to quantify functional incurable obsolescence in specific use structures. Changing technology in this type of undertaking is, of course, a factor usually only known to the producers unless obviously noticeable to the layman. It must be brought to the attention of the Assessor on a quantified basis" (Grad, 2009: p.9).

2.11.4 Land residual method

The land residual value (or "Abstraction" method) is where the values are "obtained from the cost model are subtracted from the sales of the improved value to yield residual value estimates" (Eckert, 1990: p.195) Thus, general research performed by a professional will include drawing from the advice of the agents involved in the land development process, Town Planners, Land Surveyors, Conveyancers, Legal and Professional Consultants, Estate Agents and Engineers.

When valuing the land residual value, a discounted cash flow valuation is often performed when the reliability of costs relating to a township scheme is known. In this process, the valuer determines the value as at the date of valuation, based upon the future net cash flow that the developer is likely to receive, discounted over the duration of the investment at a rate that takes into account the developer's anticipated profit. This value is useful in considering the assumptions of highest and best use analysis, because the residual land values of alternative uses can be compared to determine the use that will ultimately yield the highest value.

Various factors such as anticipation of usage, and demand and supply, will influence the value. The competition for buyers who make up the markets for sites suitable for development are endless. This often creates a price level for land that has little to do with its current use and thus, the highest and best use of the site is considered. The economic use of the land will ultimately determine the value.

Often an alternative approach used when purchasing vacant land is to determine the opportunity costs, being those costs which best meet the investment objectives and according to developers incorporate certain development costs and ultimately the return on the investment. Eckert (1990) notes that method is highly useful when there are few sales in the area, but its reliability depends on the accuracy of the sales data and the improved values used in the analysis.

The land residual method is often rejected by the South African Courts as is the replacement cost approach method, which has enjoyed little approval in South African Courts (Orgel, 1958) because there will always be a number of imponderables (Jonker, 1984) in the United Kingdom, the residual method is not used in rating and has not been tested by the courts.

2.11.5 Profits method of valuation

Properties where the Profits Method is used include the leisure industry, e.g. hotels as well as "public houses, petrol filling stations and some leisure properties. Yet, where sufficient transactions and comparable evidence exist for similar

properties because of an increased number of lettings, there is less reliance on this method" (Sayce *et al.*, 2006: p.65). Lynam (1987) referred to the gallon age method or Throughput Method as terms that are commonly used. The method should be left to managers or valuers that specialise in service station appraisals, as it tends to value the business and not the real estate (Lynam, 1987; Townsend, 1975: p.228).

Brown (2008) traced the earliest use of this methodology to 1783 with the first recorded "The Crown" (R.) case, *R. v St Nicholas Gloucester* (1783), 1 TR 723 (Crown Case, 1783). Although the Profits Method is based upon Ricardo's (1817) theory, that the greater production from fertile land, the higher the rental. The only practical method applicable is to estimate the value of a shop or the firm's estimated turnover that can be obtained if the shop is run in a normal manner. There are various cost items that can be fairly and accurately forecast with reference to the experience of when compared to similar shops. Thus, the rental value can be fairly obtained (Turvey, 1957).

In the Profits Method, referred to in the United Kingdom rating legislation as the Receipts and Expenses (RMUK, 2007a) as "a method to ascertain the rental value of a property, for the purpose of rating, by reference to the receipts and expenditure, adjusted as necessary, of an undertaking carried out on that property" (RMUK, 2007a). In the House of Lords case, *Kingston Union AC v Metropolitan Waterboard* [1926] AC 331, 338, the method was described as follows (House of Lords, 1926): "from the gross receipts of an undertaking for the preceding year, deduction for work and expenses, allowing for tenants' profit and the cost of repairs and other statutory deductions and treated the balance remaining (which should presumably represent the rent which a tenant would be willing to pay for the undertaking) as the rateable valuation of the entire concern". It was further held that unless special circumstances applied, public utility undertakings were required to be valued on a profits basis. Public utilities comprised cemeteries, railways, docks, harbours and gas works and were valued on the profit basis.

Millington (2003) summed the Profits Method up as one that is not frequently used and is restricted for trading enterprises. The trading properties or specialised properties enjoy a “monopoly situation, which is considered to make valuations by comparison inappropriate,” (Millington, 2003 p: 89). Recently, the use of this methodology was extended to racecourses, caravan sites, cinemas, petrol filling stations, piers and other such diverse kinds of properties (RICS, 1997). Theoretically, the company should pay a rental or the capital equivalent as a residual of its gross income, *i.e.* the classic Profits Method (Naish, 2004: p.455).

The Profits Method, the Accounts Method, and the Treasury Method of Valuation or the Receipts and Payment method are similar in their approach to value (Millington, 2003: p.165). The profits are analysed and the rental which a hypothetical tenant would pay is determined (Plimmer, 2003). The uses of the property are an integral part of the business, such that the value would be linked to the profitability of the business and the level of profit expected determines the ability of the traders to pay for the premises (Townsend, 1975). The rental would be related directly to the profit earning capacity of the property. The valuation is based on the gross takings less the stock in trade, trading expenses and allowance for interest or capital employed which will provide a balance for funding for the acquisition of the property (Millington, 2003).

The RICS (2003) in their current Guidelines that: “the valuation is an assessment of the future genuine sustainable trading potential and future maintainable profits that could be achieved by a reasonably competent operator of the business, upon which a potential purchaser would, in the opinion of the valuer, be likely to base an offer” (RICS, 2003: p.2). The United Kingdom, Valuation Agency Rating Manual - Volume 4 - Section 6 (RMUK, 2007a): a preferred definition as; “the ascertainment of the rental value of the hereditament by reference to receipts and expenditure, adjusted as necessary, of an undertaking carried on therein” (VOA, 1999: p.1). In the Court of Appeal in *National Trust v Hoare VO* (1998) RA 391 (Court of Appeal, 1998) the use of the term “profits method” was changed to “receipts and expenditure” method, following the assumption that profits are not rateable, but rather accounts are used to determine the tenant’s ability to pay a rental.

According to Townsend (1975) the valuation of the sale of petrol was sometimes used as “a measure of wealth” (Townsend, 1975: p.228). The methodology was doubtful as most of the factors that affected the litres sold did not reflect the real estate values and sale gimmicks, discounts, elastic credit terms, premiums, long operating hours, brand popularity and management. When the valuer places too much weight on the history of throughput, he or she is seen to be valuing a business and not the real estate (Townsend, 1975: p.228). Where this methodology is used, it should be based upon the true potential of petrol throughput that can be sold from the site (Townsend, 1975).

The estimation of the volume of petrol sales is the most important element in the valuation of a petrol filling station from which a profit calculation is determined by fixing the margin available for rent of the forecourt (Sedgwick *et al.*, 1969). The method is “normally regarded as specialised and is used primarily for the valuation of trading premises, though not always, restricted to types of properties that change hands most frequently on a freehold basis”.

While the profits method of valuation has been used in the past this was generally restricted to “...situations in which there was an element of monopoly attached to the trading activity, such monopoly usually being related to the need to either have a licence in order to pursue particular activity, or, more rarely, to situations in which unique or extremely unusual geographical location gave a business property a locational monopoly...” (Millington 2003: p.167). Comparative methods would provide reliable valuation information and if there could be no true comparable properties because of the monopoly considerations, value had to be assessed on these principles.

Profit variables, based upon turnover, can vary as they include a vast number of inputs, including stock trends, interest on borrowed money, trading expenses, *etc.* (Millington, 2003). The oil companies would usually have regard to the profits when acquiring a site for a petrol service station. However, little of this information is publicly available and certainly not in the form that could be used in valuations.

For rating, all the accounts submitted for tax should be investigated and the valuer should ensure that the hereditament does not include other property and that the trading profile of the hypothetical tenant is of average business competence. The method is generally used when rental evidence is absent and it is therefore only an artificial device to determine taxation.

Analysing the oil companies' accounts in order to find the profit made per litre is extremely difficult as the companies themselves conduct an extensive trade in oils, by-products and bulk wholesale that would be excluded. Their accounts are published in sufficient detail to enable an accurate analysis to be made and the profit per gallon will vary from company to company depending on the source of supply, their refinery costs and the general trading practices (Sedgwick *et al.*, 1969).

Profits have never been rated but have been adjusted to ascertain how much rental a tenant can afford to pay (Brown, 2008). This is supported in the findings of the Valuation Court of Appeal in *National Trust v Hoare* (1998) RA 391, where it was ruled that sometimes, where properties are rarely let, it was appropriate to arrive at the annual value by using the Profits Method. This was confusing as profits are not rateable. But, the broad theory is that where a property can be used so as to yield profits, then the hypothetical tenants would be prepared to pay a rent for that use of that property in order to be able to make those profits. The level of rent emanating from this would reflect the level of anticipated profit.

In applying the Profits method one needs to assess the factors that affect the litreage sold. Brick (1978) identified these as being the price of petrol, management, brand sold, location and improvements. In considering the price of petrol, the extensive use of giveaways, bonus gifts, stamps, credit terms are some of the generally evident incentives passed on by the oil company to the dealers. These are all identified as being competitive marketing and have an enormous effect on the net profits actually earned or even disclosed (Brick and Smith, 1978). The management of the site and the successes of the operator, coupled with the length of operating time and litreage achievable as well as the brand of fuel sold

which can influence to turnover are all very important considerations (See also *Petrofina (Great Britain) Limited v Dalby (VO) (1967)*).

The value of the location of the petrol filling station lies in the value of the real estate. The locations of other PFS sites as well as their characteristics are all important factors that will influence property values. Match with the location are the improvements, attractiveness and functional design that will affect the number of litres sold and the value of the service station (Brick, 1978).

By using the Throughput Method or Profits Method, petrol filling stations with the same throughput within a different locality would pay the same rates and taxes (Espach, 2008a). This was confirmed by Welkom (2006) as being evident when applying the Throughput Method or Profits Method to determine the values of the petrol filling stations. In principle, Weichardt (2008) agrees that, irrespective of the land value difference in the various rural or urban areas, the same rates and taxes would be payable when the value has been determined using the Profits Method. In Weichardt's (2008) opinion it was likely that a filling station located on a piece of land in an area where land prices are generally high would have a higher throughput than a filling station located in an area where land prices were lower.

The valuer, according to Brick and Smith (1978: p.961), must not put too much weight on litreage when using an income approach as the selling of petrol is a business and the service station management has a significant effect on the litreage sold at the petrol filling station. Litreage volume is erratic from one year to the next, so a "stabilized gallonage estimate" is largely theoretical and impractical (Brick and Smith, 1978: p.962). When the income approach is used, and a capitalised rate applied, the result may indicate accurate valuations rather "...by coincidence than sound practice." (Brick and Smith, 1978: p.962).

The United Kingdom Rating Manual 2007 (VOA, 1999; RMUK, 2007a) contains extensive references to the valuation of petrol filling stations. Petrol sold in the United Kingdom is not controlled as it is in South Africa and hypermarkets as well as superstore petrol filling stations have entered the market. The non-domestic

valuations in the United Kingdom are based upon a direct rental basis (rental evidence) that is suitably adjusted to a price per 1000 litres of maintainable throughput. The primary rental evidence is an open market rental for petrol filling stations, free of any tied lease agreement. However, it is acknowledged that there are insufficient stations let free of a tied lease arrangement and therefore, the assessments are based on the application of a national “Scheme of valuation” in terms of the UK Rating manual Volume 5 Section 770, which derives from wider rental evidence (RMUK, 2007b).

The disclosure of information problems which are faced by valuers is overcome by the legislative requirements in terms of the UK Local Government and Housing Act 1989. In terms of the Data Protection Act of 1998 in the United Kingdom, the information supplied is held in confidence for the purposes of calculating taxes and other statutory functions as directed by Parliament. Failure to submit the information requested timeously results in fines being imposed.

2.12 Value in use and value in exchange

When valuing property, especially specialised property, there is a substantial difference between value in use and value in exchange. These two terms are explained as follows:

2.12.1 Value in use

The “value in use” is also defined as “.... the value of an economic commodity to a specific individual” or “Use Value is the value a specific property has for a specific use” (Appraisal Institute, 2001: p.24). In estimating the use value, the valuer focuses primarily on the value the premises contributes to the enterprise of which it is a part, without regard to “highest and best use of the property or monetary amount that might be realised from its sale” (Appraisal Institute, 2001: p.25). This is usually applied when such property has a greater value from its specific use against some alternative use. Millington (2003: p.142) refers to both an “existing use value” and a “value in use”. An existing use value assumes that the property continues to be used for its present use, which is included in the normal assessment of the properties market value. However, value in use is the “present

value of the estimated future cash flows expected to arise from the continuing use....” (Millington, 2003: p.143).

2.12.2 Value in exchange

The “value in exchange” measures the value of the property to the broadest possible market based on the alternative use that could be made of the property or the profitability derived from the ownership (Wynton, 1989). In a standard rentable building, an income can be generated from its use and thus the market value determined.

However, if the building is limited to the uses to which it can be utilized, its value in exchange will also be limited based upon market factors. The application of value in use is generally appropriate when the property fulfils an economic demand for the service it provides, or which it houses and has a significant remaining useful life expectancy. There should also be responsible ownership and competent management. Further consideration needs to be given to the “diversion of the property to an alternative use that would not be economically feasible or legally permitted. The continuation of existing use by present or similar users is practical and due consideration is to be given to the property’s function utility for its present use” (Wynton, 1989: p.2).

Fulfilment of the above “criteria is crucial. If any one of the conditions is not met, the foundational basis breaks. In order to fulfil these criteria, the property must possess at least some special feature or function, to satisfy the particular present user, which sets it apart from other available property. If these criteria are not met the property falls into a standard category and should be valued as value in exchange” (Wynton, 1989: p.2).

2.13 Highest and best usage

In order to consider the market value of a property, the valuer must determine the highest and best usage of the property. If it is determined that the highest and best usage of a petrol filling station site is for some alternative type of use, the property must be valued as though it were put to such other use. The valuer may need legal advice as to the highest and best legally permitted use (Brick and Smith,

1978). By determining the property's highest and best usage, the valuer identifies the maximum potential that the property may have and thus, the ultimate market value. If the property is underutilized and its full potential is not being realised it will have a lesser value. According to Boeckh (1994) it is the highest present day value of the property or the most profitable continued usage (Boeckh, 1994: p.8). In the case of a petrol filling station, an under performing site in a residential or business area may have the potential for alternative usage, e.g. shops, flats, etc. This use will affect the value that the buyer will pay for the site.

Highest and best use is described as “the reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value” of the property being valued (Appraisal Institute, 2001: p.305). In order to achieve this, a use that is not legally permissible or physically possible cannot be considered as the highest and best use.

A use that is legally permissible and physically possible may nevertheless require an explanation by a valuer justifying why that use is reasonably probable. Once analysis establishes that one or more uses are probable, they are then tested as to their financial feasibility. That use which results in the highest value, in keeping with the other tests, is considered the highest and best use (Appraisal Institute, 2001).

A highest and best use analysis takes on a different form with the concept of “value in use”, the implication is made that the property's present use is the focal point of the valuation to the exclusion of other potential uses (Wynton, 1989: p.3). When the uses are predetermined and fixed, a highest and best use analysis is not necessary, but the market may dictate alternative uses.

Espach (2008a), the then Manager of Valuations, Tshwane Municipality, noted that the highest and best usage should always be the starting point in mass valuation. However, it may be overlooked or not considered, but where it is obvious that the existing use is not the highest and best use it should be noted by

the valuer (Espach, 2008a). In the 2006 Cape Town General Valuation it was noted that any value over and above the throughput rentals realised from the retail section, vehicle servicing or excessive land, was not taken into account and this included the location of the property (Weichardt, 2008).

Weichardt's (2008) expressed the opinion that if the valuer ignored the highest and best use of the property, a simple way of assessing the valuation for rating purposes would be arrived at. Before the valuation process can be finalised, it is necessary for the municipality to have drafted its rates policy with specific reference to the categories of properties it has defined in terms of the MPRA. These categories are used by the valuer in the compilation of valuation roll in terms of the Act (RSA, 2004). In this way, the City of Cape Town hoped it would achieve a standard valuation methodology that is easy, simple and efficient in order to produce the municipal valuation. When a property is valued on its own, the highest and best usage is noted, but it was commonly accepted that this is not the case in a mass appraisal. In a mass appraisal, not all the properties are inspected and thus, the valuers are not individually assessing the value of the property.

Valuers performing residential property valuations were not required to determine the highest and best usage, because the extent to which a higher return could be obtained by demolishing the improvement would be considered speculative. The reason for this was that mass appraisal cannot allow for a subjective approach (Weichardt, 2008). For example, subjectivity could arise where a valuer conceptualises a specific alternative use, which, in his opinion, would result in the highest and best usage, as opposed to a second valuer who may have a completely different point of view. This can result in a range of values being achieved without consensus.

In New Zealand the potential of the location as it relates to a market related rental, is that the rental for the behind the pump facilities or non-fuel related activities form a very large component of the total value of service stations. These non-fuel related activities include retail stores that were open for longer hours than the

traditional convenience stores. This is similar to South Africa situation. Service stations provide a wide range of products and not just fuel in the market where the profit margins were “being squeezed” (O'Donoghue, 2008: p.2).

Existing use value is an adaption of market value and is based upon the assumption that the property continues to be used for its present use. This does not necessarily include the highest and best usage, which would be included “in the normal assessment of market value...” (Millington, 2003: p.142). Regardless of the existing use of a property, property must be valued as though it was being put to its most profitable use, given probable legal, physical and functional constraints (Neely and Rendleman, 1997: p.10).

According to Neely and Rendleman (1997: p11), “if the existing use of a property is the most profitable legal use, given probable physical and financial constraints, or similar to it, is the highest and best usage (See *Ford Motor Co v. Township of Edison*, 604 A.2d @ 585). If the existing use of the property, or one similar to it, the highest and best usage, it is assumed that a willing buyer would continue with the existing use, or one similar to it, and derive utility equivalent to the utility derived by the present owner of the property as noted in the case of *Clark Equipment Company v Township of Leoni* 318N.W.2d 586 (Neely and Rendleman, 1997).

Oil companies will, because of their policies, ignore the low throughput and the highest and best usage of the petrol station to achieve other benefits as a result of its location. These benefits that can be achieved are, e.g. advertising, merchandise, profit, tax consideration or other factors that will be more beneficial (Hayes, 1966). However, an operator cannot afford to pay a proper rental on an investment where the value attributes are ignored and still survive. Such petrol filling stations experiences a continual change of operators, generally at a progressively reduced rental. Companies that are financially strong can support these costs that could be recovered in terms of a lease situation, but a favourable lease can result in a situation with the property being over rented to a financially secure tenant (Hayes, 1966).

In an environment of average retail, commercial and industrial values, the availability of rights for a filling station would convey additional value to a property. The use as a filling station would normally be the highest and best use as defined. This is particularly so where filling stations are sited in non-conforming residential or even agricultural areas. Millington (2003) makes reference to situations where specialized properties have few potential purchasers, which may result in a limited demand for them and the value of the site for redevelopment purposes could be greater than the value of the existing development, which could be costly to upgrade to modern standards. This could equally apply to a petrol filling station that may be functional, but economically, the site is no longer suitable for selling petrol and should be valued for alternative uses or for redevelopment purposes (Millington, 2003).

The use of a property for a service station is more vulnerable than other types of commercial property to changes in streets and highways. This includes not only the diversion of traffic by construction of new traffic arteries, but changes brought about by street dividers, channel markers, and one way or other regulations and control (Brick and Smith, 1978).

In assessing alternative uses for the site, the town planning scheme for the area and the National Building Regulations and Building Standards Amendment Act No 49 of 1995 (DPW, 1995), need to be adhered to, as well as what would be an appropriate development for the area. Factors that need to be considered include the density of the development, car parking standards, signage, design and landscaping (Plato, 2006).

The service station saturation index (SSSI) can be used as a guideline to determine the number of petrol filling stations in a trading area as a percentage of the number required to provide service at a profit (Brick and Smith, 1978: p.957). The formula addresses the number of cars anticipated in the trading area and the likely amount of petrol that would be purchased within the year that should equate to the number of petrol filling stations trading in the area.

Plato (2006) summarised the alternative uses for a petrol filling station as the “three R’s”, being residential, retail and roadside. While retail and residential developments are clearly understood, roadside was a general term for a range of uses that could command high alternative uses which would compete favourably with residential and retail development. The uses in a roadside development would include a carwash and/or motor retailers showrooms. The extent to which alternative value could be added would include the “marriage value” of the adjoining sites. A site could also benefit from a mixed usage that could include all of the above (Plato, 2006).

Our courts have recognised that valuation of property is not based solely on its current use, but that the potential uses of property influence the price a prospective buyer would pay (Port Edward Town Board v Kay 1996 SA 664 (A)).

The determination of highest and best usage is not feasible, as it requires a substantial amount of time to analyse the property (Grad, 2009). The current use is commonly considered as a basis of value, a conclusion that may lead to an inaccurate valuation (Grad, 2009).

2.14 Markets for petrol filling stations

Petrol filling stations, being special purpose real estate (Townsend, 1974; American Appraisal, 1974), which usually adds value to the underlying real estate. As with any real estate, the sales of other comparable petrol filling stations will tend to indicate the value. There could arise from the sales analysis a wide range of prices, which are usually caused by the rental differentiations, where this information can be obtained from the oil companies.

White (1973) noted that service stations doing a profitable business seldom sold on the market and identified six markets for Service Stations. In South Africa, with the highest cost of developing and impeding reregulation, oil companies express little interest on sites with a 250kl pumping capacity. Above 250kl, the “demand is created by competing oil companies which have resources (including international companies)... which determined the market price” (Naish, 2004: p. 455).

According to White (1973), at the time of the fuel shortage in the United States of America a study was conducted in Houston. From the study it was observed that major oil companies paid two to five times more for a site than the market value for well-located commercial tracts of land. Many franchise food operators competed actively with major oil companies for prime commercial locations. Higher prices were paid for sites located on freeways followed by sites located at intersections of major thoroughfares. Preferences were also given to entrance ramps from diamond patterns (*i.e.* a driver leaves the freeway before he reaches the cross street) and sites adjacent to shopping centres will command an additional premium while an exit ramp on a freeway was critically important.

Other noticeable influencing factors are the residential population in the area, the income level of population and the distance to business district as well as other employment sources. The typical occupation of residents is also of importance. Petrol filling stations commonly known as “old Dogs” (White, 1973: p.480), no longer produce sufficient sales in order to keep an operator. Lack of business often attributes to this phenomenon following changes in traffic patterns, character of neighbourhood, inadequate site size, and obsolete improvements. In this instance, continued use is no longer the highest and best usage.

Marginal Quality Stations were service stations that would be approaching marginal operation and would usually be sold to the operator to ensure a good operator for the location. If the business deteriorates, the company will eventually close but in some cases, the site turnover can improve and the oil company will repurchase the site.

“Major Company to Major Company” (White, 1973: p.481) was generally considered as having poor market acceptability for its products and location, but the purchaser believes he will have a good market for his products. This was not found where the volume of business justifies its investment in the land and improvements. When the sales take place, values were often discounted.

“Investor to investor” (White, 1973: p.481) was the sale of service station under lease takes place from one investor to another under the lease agreement. The most important consideration being the amount paid under the lease and the lease term remaining, as this will result in a lease renegotiation upon renewal.

“Lessor (Landlord) to major oil company” (White, 1973: p.482) was the occasional sale where the service station was owned by a knowledgeable investor and leased to a major oil company. Hypothetically, the operator is doing a good volume of business and the lease was nearing the end of the contract term. Other oil companies become interested in the property and make overtures for the site. In order to protect the business, the lessee will purchase the site.

In order for a petrol filling station to qualify as a filling station site, oil companies generally require a minimum of 350,000 litres to be pumped per month (Rode, 2006). In addition to the pumping capacity of the site, there are additional “value determinants such as a 24-hour shop and perhaps a car wash that would be taken into account” (Rode, 2006: p.74). Rode (2006), advises that the average national land petrol filling station site, *i.e.* low throughput site of 350 000kl per month would have a capital value of between R 1 261 076 and R 2 059 252 (Rode, 2006).

According to Welkom (2006), the valuer appointed by the City of Cape Town to undertake the valuation of petrol filling stations for the 2006 General Valuation within the Cape Town metropolitan area an inspection of the petrol filling stations included attention to the monthly throughput, dealer’s margin, traffic flow input on the subject service station’s forecourt and an investigation into market rentals obtained from the behind forecourt facilities.

2.15 Supplying of information to valuers

Section 42 of the MPRA states that the municipal valuer may require the tenant or occupier to produce documents or information in possession of the owner or tenant which the valuer might reasonably be required to obtain in undertaking the valuation. Unfortunately, although there is an obligation on the valuer not to disclose this information (Section 44), the only penalty for the owner not responding and providing the information is a cost order which can be handed

down when an appeal takes place in terms of Section 70 of the MPRA, as a result of an objector not supplying the relevant information when initially requested.

The non-disclosure or provision of information by the oil companies and operators remains problematic (Weichardt, 2008; Espach, 2008a; Welkom, 2006; Townsend, 1975; Millington, 2003). Weichardt (2008) indicated that when information had been received by the City of Cape Town from petrol filling stations owners it had been very limited and related mainly to the throughput. The problem of obtaining information is not unique to oil companies in South Africa. In New Zealand, for example, the details of the petrol filling station operation, e.g. throughput, income and expenditure was often only provided after the initial valuation roll had been released and the owner had objected to the valuation on the roll (O'Donoghue, 2008). In the UK, fines are payable for the non-supply of information (RMUK, 2007a).

2.16 Data monitoring

Monitoring compliance by the municipalities in producing valuation rolls are entrenched into the legislation. In terms of Section 81 of the MPRA, the MEC for Local Government of the Province is responsible for monitoring the compliance to the MPRA by the municipalities within their province. This provision would ensure that correct procedures were being followed and that accurate and consistent valuations would result. In addition, the legislation ensures that municipalities generate and distribute the rates income most effectively, in a transparent and equitable way (Sarvari, 2009).

In terms of Section 82 of the MPRA, the Minister of Local Government may investigate the valuation process in one or more municipalities. It also provides for a public report to be prepared on the effectiveness, consistency, uniformity and application of municipal valuations for rates purposes. The investigation includes the study of the ratio of valuations to sale prices and other appropriate statistical measures e.g. multiple regression analysis, co-efficient of dispersion (COD), to establish the accuracy of the valuations, including the relative treatment of higher value and lower value property. The MEC may take any appropriate steps to ensure compliance, including proposing an intervention by the Provincial

Executive in terms of Section 139 of the Constitution. The non-compliance does have severe consequences.

While the MPRA provides more freedom for the innovation of CAMA and automated valuations, these methods will now be scrutinized by the Attorney General. In 2010 by the Provincial government, tenderers were invited for the review of municipal valuations and the methodology used by the valuer. Although no tenders were awarded work has commenced on amending certain provision of the MPRA and the new MPRA Amendment Bill was published on 9th June 2011 in Government Gazette No 343457 for comment (RSA, 2011).

According to Sarvari (2009), Gauteng and KwaZulu-Natal, had made good progress in over-viewing their valuation methodology, but this had not formally taken place nationally although it was anticipated by Sarvari (2009) that certain watchdog units would be established to oversee compliance. The Department of Local Government has published a guideline to municipalities (DPLG, 2005b) that provides a clear indication of what is required before a Valuation roll is implemented.

The quality of the results depends largely on the reliability of the data. Property valuers are very important as specialists with knowledge of the real property market within the area (Bagdonavicius, 2009). The City of Cape Town does not have an accuracy policy for their general valuation roll. The accuracy levels are based upon a 10% differentiation above and below the threshold in respect of the determination of the value for single residential property (Solomon, 2007). For any mass valuation technique to be applied, an accurate data collection process is fundamental. It is the very foundation upon which the system will be successful in its application. According to Wybenga (1994) mass appraisal depends on the accuracy of the data and the more information at the valuers' disposal, the better the quality of the valuation.

There had been concern pertaining to the number of valuers that would be available (Boyd, 1985) to undertake general valuation work in the future. Some

municipalities, e.g. Cape Town, had by 1985 not been regularly revalued, having last had a general valuation in 1979. Marten (1999) raised similar concern about the number of valuers being in short supply with no indication that this would improve. The valuation profession is highly under resourced with not many professional valuers and limited practicing valuers, especially for valuations for rating (Smoothey, 2009). According to the SACPVP between 1989 and 2009, the number of valuers (Professional Valuers and Professional Associated Valuers) had declined from 1663 to 1501 (SACPVP, 2009).

The International Association of Assessing Offices (IAAO) notes that a clear, thorough, and precise data collection manual should be developed, updated and maintained by the local authority. A written manual should be simple with a high degree of standardization for uniformity and should clearly explain how to collect and record each data (property) item. Pictures, examples and illustrations would be particularly helpful (IAAO, 2007).

The Standard of Mass Appraisal in section 3.3.2 (IAAO, 2012) sets out the critical work required to be undertaken by data collection or the need for careful monitoring through a quality control program. Unfortunately, the lack of quality control was precisely the cause of many of incorrect valuations caused by inaccurate data. According to Espach (2008a), mass valuation forms only a small section of the curriculum of tertiary education and local knowledge is limited. Providing training to all persons involved in mass valuations will improve the standards (Espach, 2008a).

According to Sarvari (2009), one of the problems that emanated from the previous Valuation Ordinances was the lack of auditing of the valuation rolls and the Auditor General was not formally involved in the process. Valuers produced their own valuation models in order to perform the valuations and as a result, there was no uniformity or compliance with the relevant legislation. The costs of preparing valuation rolls were never questioned and there was no recommended pricing for compiling rolls. The local authorities generally accept low tenders and in many cases poor quality work was rendered as was evidenced by the poor final product

produced. One of Sarvari's (2009) concerns was the lack of uniform national legislation and/or clear policies and that there was thus little control which also lead to threat of fraud charges being laid against non-registered valuers who were illegally appointed (Sarvari, 2009).

According to Weichardt (2008), there was a lack of quality control in the valuations of petrol filling stations, but this was a result of the pressure on the City of Cape Town to complete the General Valuation process within a specific time to enable the roll to be implemented by 1 July 2007. If quality control were to be carried out, a person with specialized knowledge should ideally oversee the valuation of specialized property (Weichardt, 2008). It is noted that in the case of the valuation of petrol filling stations, there were no valuers employed by the local authority who had knowledge of the valuation of petrol filling stations and therefore the process was sub-contracted to the private valuers (Weichardt, 2008).

Delegates at the Local Government SETA meeting of Municipal Financial Officers in Cape Town held in December 2008 expressed their concern regarding the lack of training provided to data-collectors and the need for municipal valuers to specialise in municipal valuations (LGSETA, 2009). The Department of Local Government SETA (LGSETA) had expressed the concern as to what was understood to be a crisis facing the valuation profession with regards to the educational standards of data-collectors and municipal valuers. LGSETA had expressed the need for courses to be registered with the National Qualification Framework (NQF) so that for training and registration of data-collectors and municipal valuers could be provided (Davies *et al.*, 2009). A bursary scheme was established by LGSETA in 2010 to encourage training of existing municipal valuation staff in the valuation profession. The program was suspended in 2011, as the educational unit standards had not been registered with SAQA. The money set aside for the bursary scheme was diverted into the preparation of the unit standards, which will probably be completed in 2012 (SACPVP, 2012).

There improved initiatives for the 2009 General Valuation process included the proposed introduction of sales verification closer to the offer to purchase; improve

modelling techniques; and introduce more judicious neighbourhood delineation (Gavor, 2009). Gavor (2009) has also questioned how market value should be defined in the current recessive market and if the seller were to accept a price far below the asking price. In this case is the seller considered as a willing seller or is the buyer paying a fair market value or taking advantage of the recession? When does a sale cease to become either voluntary or forced sale? The answers to these questions relate to market value as defined in the MPRA and hi-lighted the problems faced when actual sales were below the deemed market value.

In South Africa, the valuations currently remain controlled by the local authority. This is contrary to international practice. As part of the monitoring process in Australia of fiscal valuations, there is an independently appointed Valuer General (VG) for each state who is independently appointed by Government. The functions of the VG is to provide protection to property owners and Government by ensuring that valuations are properly undertaken and based on defensible valuation methodologies when used in government property transactions and by rating authorities (Dunham, 2005).

In the United Kingdom there is an independent Valuation Office Agency (VOA). The Valuation Office Agency is an executive agency of HM Revenue & Customs (HMRC) which provides the Government with the valuations and property advice required to support taxation and benefits. The Agency attends to the “valuations of properties for the purpose of Council Tax and for non-domestic rates in England and Wales (in Scotland this function is performed by the Scottish Assessors). This work is undertaken on behalf of the Department for Communities and Local Government in England and the Welch Assembly Government in Wales (VOA, 2010: p.2).

On the 31 August 2011, the Department of Rural Development and Land Reform in South Africa released the Green Paper on Land Reform, 2011 (DRDLR, 2011). One of the recommendations of this Department is that a Valuer General would be appointed. One of the functions of the Valuer-General, which will be a statutory office, will be the provision of fair and consistent land values for rating and taxing

purposes. Amongst the other functions, he will be responsible for “determining financial compensation in cases of land expropriation, under the Expropriation Act or any other policy and legislation, in compliance with the constitution; the provision of specialist valuation and property-related advice to government; setting norms and standards, and monitoring service delivery; undertaking market and sales analysis; setting guidelines, norms and standards required to validate the integrity of the valuation data; and creating and maintaining a database of valuation information” (Department of Rural Development, 2011: p.7).

2.17 Legislative amendments

The City of Cape Town was the first metropolitan area to proceed with a General Valuation under the MPRA in June 2006. The objections that have subsequently arisen in the valuation processes of twenty-seven other municipalities on a national level have resulted in the Department of Local Government reviewing the legislation. The MPRA Amendment Bill was published on 9th June 2011 for comment (RSA, 2011).

The determination of “market value” versus “rateable value” is likely to remain a concern until such time as the terminology and definition are reviewed. The nature of a so-called market transaction, as at the date of valuation may not necessarily be such that it reflects “open market value”. Consideration needs to be given to the most probable, as opposed to the actual, price at which the property was sold.

2.18 Summary

Although there is a body of knowledge pertaining to the valuation of specialised properties, there is a fundamental difference as to how the various industries operate and this can affect the valuation of such properties. Although literature on the valuation of specialised property has been published, not all properties are similar. For example the hotel industry is well publicised and it is relatively easy to obtain information, whereas this is not the case with the fuel industry, which appears to operate within its own domain in a clandestine manner as a cartel.

One of the challenges that emanated from the literature review was to explore a methodology and process that could guide the research in the post-MPRA period.

Various definitions of “market value” used internationally, have been recognised when undertaking valuations. IPTI have suggested that the definition of “market value” in terms of the MPRA should be changed to “most probable price” as opposed to the concept of “...if sold on the date of valuation...”. When valuing property and the market drivers (e.g. lease agreements, property inspections, etc.) are excluded, one effectively does not actually achieve market value. The approach of ignoring leases in the valuation process was also ignored in New Zealand and Australia rating legislation.

CAMA methodology was introduced to essentially address the mass valuation of residential properties and partially for commercial properties in the 2006 Cape Town General Valuation. The City of Cape Town explained that the carrying out of valuations for petrol filling stations needed to be done economically within the time frames allowed and with good quality control.

The City of Cape Town’s guidelines for the valuation of petrol filling stations emphasised the use of the Profits Method of valuation. When sourcing data from the oil companies for the valuation process only two oil companies responded. Tshwane Municipality followed the Scottish Assessors Association Guidelines (SAA, 2005a; SAA, 2005b) and a call for national guidelines is yet to be addressed.

In terms of the Rating Valuation Act of the United Kingdom 1999, valuations for non-residential property are based upon the rateable value of the property. When determining this value, an annual rental value is determined based upon what a notional and hypothetical tenant would pay. A fundamental difference between UK and South African legislation is that UK oil companies that do not disclose the information required and fail to provide their returns, are penalised. The MPRA’s approach is much softer and only addresses such lack of cooperation at the appeal stage where a cost order could be granted against the objector.

In order to understand the background of the petroleum industry one is required to understand the valuation process, the operation changes, the legislation, price

control and fuel pricing. The operational review was conducted and the relationships between the operator, landlord and oil companies explored.

The oil companies seek an outlet for their products and do not usually acquire property for investment purposes. They protect their brand through stringent clauses, in agreements with the dealer. The South African fuel industry was found to be extensively legislated, not only in relation to the sale of the products, but also in terms of environmental legislation enforced through NEMA and ECA.

There has been a change in the nature of petrol filling station sites, with more emphasis being placed on convenience stores, restaurants and a general move into retailing. The importance of the location of the site for ingress and egress was emphasised, as well as other valuation attributes that needed to be considered.

Aspects of the existing methodologies with limitations and the Profits Method used in the Cape Town 2006 General Valuation were researched. The concern among some local authorities was the special nature of the exercise, the lack of knowledge in Government Departments and the lack of qualified Valuers able to undertake quality control. Special purpose properties and special use properties were significantly different to other properties and the valuation thereof could be categorised either as a value-in-use or as value-in-exchange.

While the conventional valuation methods are well known, the comparison of the Profits method and the DRCM was noted. When applying the Profits Method, as was the case in the Cape Town 2006 General Valuation, a Valuer would actually be valuing the business and not the real estate. The value is also affected by the management and operational skills of the operator and the Profits Method, which has been described as “unreliable”.

The DRCM was the most commonly used method for specialised properties and has not been ruled out by institutions such as the American Appraisal Institute. By applying the DRCM method the results could be more equitable, although

depreciation factors could be problematic. The DRCM method was considered to be a reliable check when the Profits Method was used.

Where the markets do not exist, the courts have considered the DRCM methodology to be reasonable. One of the major obstacles in the municipal valuation process is the time and expertise needed. Objectors are also in a more favourable position being able to object to the depreciation factor allowed.

The Profits Method is effectively used in the United Kingdom and various special utilities are valued on this basis. The methodology is also supported by the Royal Institution of Chartered Surveyors. The volume of petrol sales is the most important element in the process and requires extensive investigation of the trading operations, including behind the forecourt facilities and the factors that influence access to the forecourt. The underlying valuation data, which should be accurate and reliable, will always guide the process. Valuers with specialised knowledge need to oversee the valuation process by reviewing the methodology used and providing adequate training.

An assumed highest and best usage is necessary to consider market value and should always be the starting point in a mass valuation, but it was not taken into account in the Cape Town 2006 General Valuation. This simplified the valuation process and would be addressed by the category under which it was placed on the valuation roll. When undertaking the 2006 General Valuation in Cape Town, attention was only given to the throughput, the dealer's margins and behind the forecourt rentals.

The valuation of non-residential property is affected by the many challenges facing the valuation and assessment agencies. These include: the determination of highest and best usage; dealing with the complexities; and the determination of replacement costs. The process remains a top priority for the valuation of non-residential properties and professional on-going training and support from taxpayers is essential.

CHAPTER 3. RESEARCH METHODOLOGY

3.1 Introduction

Research into the valuation of petrol filling stations and the effect of the MPRA on the valuation methodology used for petrol filling stations, has not been conducted previously.

The empirical research focussed exclusively on registered property valuers in South Africa. A single case study was conducted of the City of Cape Town's 2006 General Valuation. At the time of commencing the research Cape Town was the only city that had completed a general valuation in terms of the new MPRA. The objective was to explore the experiences of conducting general valuations under the MPRA and the manner in which the valuation of petrol filling stations was performed.

The purposes of adopting a single case can be either to confirm or challenge a theory, or because they are unique and extreme (Yin, 1994). The approach followed in this study allowed the research to be more quantitative in order to seek categorical responses. With a single case study being conducted, as opposed to a multiple case study of all the local authorities that had begun embarking on their general valuations, more insight was gained into the valuation process. Although by selecting a single case study, one sacrifices the ability to generalise to the population of such cases, one gains the opportunity to explore contextually related aspects of the single case in depth.

The use of a single case study also allowed the exploration of the results of the different approaches used by the Valuers when the highest and best usage was applied, as well as the value of the relationship between petrol filling station sites and the prevailing commercial land values in the area. In surveying South African property valuers, insight was obtained into noteworthy practices, which should lead to further policy development and practice.

The case study design comprised semi-structured interviews with individuals employed by the local authority who were responsible for the management of the process. It also included a survey of the property valuers involved in municipal valuations regarding their approach to the valuation of petrol filling stations, where specifically the case design involved: -

- (i) a survey of the methods used by valuers who undertook valuations of petrol filling stations in the 2006 Cape Town General Valuation; and
- (ii) structured interviews with representatives of oil companies

The intention was to explore the extent to which oil companies have historically influenced and currently influence the selection of valuation techniques and the potential for this to produce a biased valuation. The plan was that this would be done either by a personal interview or a survey. It is noted that this latter survey was not conducted because the researcher was not received positively by the oil companies and none agreed to be interviewed.

3.2 Method of data collection

Two surveys were prepared. A survey was prepared for registered valuers and a second for the oil companies. A descriptive survey method was used for both, which is the primary source of data collection for obtaining data from both sets of respondents.

In the surveys undertaken no questions submitted were masked or disguised and all respondents were advised that the researcher was undertaking a thesis. Although personal details were requested, the names of the respondents were not made available. The questions were all generally self-explanatory. This type of questionnaire was easier to tabulate and analyse as well as simple to administer. It was assumed that the respondents would have little difficulty with the questions and their responses were considered more reliable.

The survey prepared for oil companies followed the principles set out above.

3.2.1 Pilot survey

Prior to distributing the final survey a pilot study was conducted using selected property valuers familiar with municipal valuations, who were considered to be experts in the field of valuation. The survey was web-based and the respondents were required to answer questions and to comment online.

The survey was sent to twenty registered property valuers, who were considered experts in the field of the valuation of petrol filling stations and had a good knowledge of municipal property valuations. The survey comprised questions that would form the basis of the final survey and was emailed to the respondents (See Appendix E).

3.2.2 Format of pilot survey questionnaire for valuers or contract valuers

The questionnaire was designed to be clear without ambiguity (Asantewa, 1992) and was prepared as a series of predetermined questions to enable self administration (Berdie *et al.*, 1986). A formal approach was adopted and the questions were prepared in a funnel format. Broad questions were initially asked at the beginning of the survey, followed by a narrow format of questioning so that the replies would be more focused (Berdie *et al.*, 1986).

The responses and sequencing of questions were very important so that a respondent-pleasing vertical flow of questions would provide a clear direction to the respondents (Shannon *et al.*, 2002). The questions were designed mainly with tick boxes for answers, with some having pull down menus and provision for open-ended responses.

As the valuation methodology for properties used for petrol filling stations is specialised, the oil companies may directly influence the property value. It was therefore important to endeavour to ensure that the responses were unbiased. To address this, respondents were informed that their response would remain confidential and open-ended questions were used in the questionnaire to encourage comment.

The survey contained three main sections, excluding the completion of the sections relating to personal and educational information, which were optional. In the first section questions were focused on the municipal valuation process and the second section of questions focused on valuers or contract valuers (to the municipality) who had undertaken municipal valuations or acted as a municipal valuer. The third section culminated with questions aimed solely at property valuers who had undertaken the valuations of petrol filling stations.

3.2.3 Overview of completed questionnaires for pilot survey

Although some twenty valuers were sent the pilot questionnaire, only eleven participated. Although the valuers were requested to provide comments, the majority merely completed the survey. Only one respondent did not provide his personal information. All the respondents were either Professional Valuers or Professional Associated Valuers and were members of a professional voluntary association, e.g. South African Institute of Valuers, The Black Valuers Association or The Royal Institution of Chartered Surveyors, with a relevant degree or diploma in property.

Of the surveyed sample, seven respondents were classified as contract valuers. A contract valuer is usually in private practice and is employed to assist the municipal valuer with the General Valuation. Six of the respondents had assisted the Cape Town municipality, one respondent the Durban municipality and one respondent the East London municipality. Of the sample, only three valuers had undertaken the valuation of petrol filling stations.

It was immediately established from the pilot survey responses that the questionnaire needed to be adjusted to make it possible to identify those respondents who had valued petrol filling stations, as this question had not been isolated. The introduction to the survey was also misunderstood by the respondents to only require responses from those with specialised knowledge of petrol filling stations.

As a result of the analysis of the pilot survey, the following amendments were made to the final survey: -

- (i) Question 4, which related to municipal valuations (general), was reconsidered for the final survey. The question was a general one, which related to the performance of municipal valuations and guidelines. The question was well responded to, but there was clearly a need to try and ascertain which category of properties were being identified, especially where questions pertaining to guidelines were concerned. It was noteworthy that the majority of respondents agreed that all types of property should be inspected. There was sufficient time provided to complete the valuation assignments.
- (ii) Responses to question 5, which related to quality control, differed amongst the types of property and this question was consequently reworded.
- (iii) When surveying the valuers who attended to Municipal Objections on the municipal policy and practice, it was noted that 57% of the respondents were of the opinion that the valuations should be controlled by an independent valuer. It was further noted that 85% were of the opinion that politicians influence the municipal valuer who has insufficient funding to prepare a valuation role and that the politicians have little knowledge of the process. The question was then extended to provide a "comment" for "other" answers or removed to "yes"/"no".
- (iv) While 60% of the valuers were of the opinion that property owners were co-operative, 60% found that the information supplied by them was inaccurate. All of the respondents were of the opinion that the owners did not understand the process and should be better informed, which would result in the owners being more co-operative. The majority were also of the opinion that valuation guidelines should be placed in the public domain.

Of all the respondents to the section specifically relating to the valuation of petrol filling stations, six had undertaken petrol filling station valuations, with not more than 4 valuations in a 5-year period. One respondent had undertaken 400 valuations on behalf of a local authority in a metropolitan area. However, question 4 of this section, which related to the valuation methodology, was changed because many of the respondents answered “other” as opposed to “yes”/“no”. It was essential that the researcher could identify what that response would be.

Question 6 explored the role of the oil company and it was generally agreed that the company should provide data every three years, although the imposition of a fine for not doing so was also a consideration. The oil companies or operator should be obliged by law to supply the rental details of the behind the pump facilities and the legislating of this requirement must be considered.

When determining the market value of the petrol filling station, the Profits Method was used for the forecourt and for the majority of the remaining behind the pump facilities areas, except for restaurants where the Profits Method was used, the sites were valued at highest and best usage. According to the municipal valuer, dysfunctional service stations in some areas necessitated the use of the depreciated replacement cost approach, especially where management problems were clearly identified. This question was redesigned to ascertain how municipal valuers, and not valuers in general, had approached this.

Although only one respondent answered the last question in the survey, which related to turnover, the question was retained in the final survey.

3.3 Final survey

Having piloted the initial questionnaire, which was found to be satisfactory, save for the changes to questions as previously identified, a final survey was prepared.

3.3.1 Method of data collection

A further web-based on-line survey was prepared. The survey was sent by email to all the Professional Valuers (PV) as well as unrestricted Professional Associated Valuers (PAV) registered with the South African Council for the

Property Valuers Profession (SACPVP). PAVs restricted to local authority valuations were included.

Only the valuers with email addresses that were provided by the SACPVP were included in the survey, which resulted in a sample of 1061: -

584	Professional Valuers
450	Professional Associated Valuers
<u>27</u>	Professional Associated Valuers (Restricted)
<u>1061</u>	TOTAL

The sample included all “municipal valuers” and was deemed sufficient for the survey.

A follow-up by email or telephone was carried out with the respondents within thirty days of dispatch and the survey was extended for a further fifteen days.

3.3.2 Selection of data

The completed questionnaires were reviewed for correctness and compliance. If in the opinion of the researcher, the questionnaire had been incorrectly completed and the respondent had failed to meet the criteria, the questionnaire was either rejected or a follow up telephonic interview was undertaken.

3.4 Data collection of oil companies

A separate web based questionnaire for oil companies was administered using “Survey Monkey”.

The following major oil companies, who were the market leaders were surveyed: -

- (a) Engen
- (b) Shell
- (c) Caltex
- (d) BP
- (e) Sasol

3.5 Summary

The survey results are analysed in Chapter 4 and provide insight into the shortcomings that can be identified in the valuation process and test the valuation methodology applied. From the analysis of the responses obtained from the valuers, more insight into the valuation process could be obtained.

University of Cape Town

CHAPTER 4. ANALYSIS OF SURVEY RESULTS

4.1 Introduction

The data was analysed using the responses that were provided by “Survey Monkey” and Statistical Package for Social Sciences Version 18 (“SPSS”). The response count and percentages recorded in the data analysis unless otherwise indicated, generally relate to the response provided to the individual questions.

Various responses were cross tabulated using SPSS, where it was found necessary to ascertain the various responses between the valuers, *e.g.* municipal valuers, contract valuers and valuers attending to objections in respect of the GV 2006.

4.2 South African valuation practice

A survey was conducted to gather and obtain information about the perceptions of the Municipal Valuation process and the methodology applied by valuers in undertaking municipal valuations. Firstly, questions were put to valuers on general valuations of residential, commercial, industrial and specialised properties. Secondly, questions were specifically put to valuers who had performed general valuations of petrol filling stations.

4.3 Survey procedure

The sample was drawn from a national list of registered professional valuers and professional associated valuers, supplied by the SACPVP. A sample of 1061 respondents was identified to participate in the survey, selected on the basis that they had email addresses.

Each of the participants was sent an email stating the purpose of the survey and provided with a link to the URL for the online questionnaire.

The SPSS software package was used to analyse the data, which was obtained from the Survey Monkey reports. All answers were tabulated in Excel and extracted into SPSS in order to analyse the data.

4.4 Basis of survey

The final questionnaire was divided into two parts as follows:

Part 1

Section A	Participant information
Section B	Education & professional registration
Section C	General municipal valuations
Section D	Municipal Objection process
Section E	General questions for all respondents

Part 2

Questions relating solely to valuers who had performed petrol filling station valuations.

4.5 The sample profile

Of the 1061 sample, only 141 responded to the survey. The respondents who indicated the type of their employment were employed as follows: -

Table 1: Type of employment

TYPE OF EMPLOYMENT	No. of Respondents	Percent
Metropole	17	12.1%
Government	2	1.4%
Private Sector	107	75.9%
Bank	4	2.8%
PFS	0	0.0%
Other	1	0.7%
Type of employment not indicated	10	7.1%
Total	141	100.0%

Ninety three percent of the respondents indicated where they were employed. Those in private practice, those employed in valuation firms, those who were self-employed (not in a municipality or government agency) and those who were employers were combined and labelled 'Private Sector'. No respondents employed by oil companies indicated the nature of their employment.

The majority of respondents were in private practice (75.9%), with 12% being employed by a municipality. A total of 75.2% respondents indicated that they had valued “specialised” property, e.g. hotels, hospitals or petrol filling stations. Of the 75.2% (106) respondents 37.6% indicated that they had ‘sometimes’ valued petrol filling stations, as noted in Table 2 below.

Table 2: Valuations of petrol filling stations

	No. of Respondents	Percent
Yes	53	37.6%
No	26	18.4%
Sometimes	53	37.6%
Missing	9	6.4%
Total	141	100.0%

4.6 Analysis of results of web-based survey

Refer to Appendix G for the survey questions, which are not specifically repeated hereunder.

4.7 Response to web-based survey

4.7.1 Part 1 - Questions 1 – 5

The initial section of Part 1, *i.e.* Questions 1 – 3 pertained to the participant’s background, current professional position and qualifications, while the remainder of this section was directed to valuers who did not necessarily perform valuations of petrol filling stations, but their involvement in general valuations.

4.7.1.1 Section A - Participants information

In this first section, sub questions 1, 2 and 3 were screening questions and were general in nature, aimed at gathering information about the respondent’s background, nature of employment, *i.e.* the public or private sector and the most common types of properties valued.

Of the 141 respondents, the valuers in general had a vast variety of experience in relation to the valuation of residential, commercial and industrial property as is

noted in Table 3 below. The table reflects the work performed over a three-year period (2007 – 2010). Multiple responses were possible.

Table 3: Types of properties valued by respondents

Residential including Sectional Title Buildings and Blocks of flats	Percent	Commercial	Percent	Industrial	Percent	Specialised (Hotels, Petrol Filling Stations, etc.)	Percent
75	53.2%	114	80.9%	106	75.2%	104	73.8%

The above were noted as responses to the question on whether or not the respondent had valued petrol filling stations. This would be used where possible to monitor respondents participating in the survey.

4.7.1.2 Section B - Education and professional registration

This section contained questions on the respondent's educational and professional status, as well as his/her affiliation to professional bodies.

Only 84 (59.5%) respondents provided their names, while 57 (40.4%) did not answer the question. Ninety (90) respondents were registered valuers, 41 (29.1%) were Professional Associated Valuers (PAV), 4 (2.8%) were registered with restrictions and 2 (1.4%) were Candidate Valuers. The 4 remaining respondents did not indicate their category of registration.

Table 4: SACPVP registration categories

Categories	No. of Respondents	Percent
PV	90	63.8%
PAV	41	29.1%
PAV Restricted	4	2.8%
Candidate Valuer	2	1.4%
Category Unknown	4	2.8%
Total	141	100.0%

Of the 141 respondents, 110 were members of the South African Institute of Valuers (SAIV), 1 was from the Black Valuers Association (BVA)/SAIV and 8 were members of the Royal Institution of Chartered Surveyors (RICS). Of the majority of the respondents who provided their educational qualifications (86), 88% held diplomas, while only 10 had received a degree.

4.7.1.3 Section C – General municipal valuations

4.7.1.3.1 The third subset of questions (Questions 3.1 to 3.4) was aimed at valuers employed by local authorities, or contract valuers, *i.e.* valuers in private practice who had undertaken municipal valuations on behalf of the municipal valuer. In the initial screening questions respondents were asked to comment on their participation in preparing valuation rolls and the areas where the valuations were undertaken.

Only 48.2% of all the respondents had been involved in undertaking general valuations. Of these, 30.5% were termed contract valuers, being valuers who were employed externally by the municipal valuer and 9.9% were employed by the municipality. In addition, 7.8% of the respondents who answered Question 4.4 had not indicated whether they were contract valuers or municipal employees (See Table 5.1 below).

Table 5.1: Valuers performing valuations for local authorities

Question 3.1 Valuers employed by local authority and contract valuers

Types of value	No. of Respondents	Percent
Non Municipal Valuers	73	51.8%
Municipality Valuers	14	9.9%
Contract Valuers	43	30.5%
Valuers not indicating employment status	11	7.8%
Total	141	100%

As noted in Table 5.2, 57 respondents indicated that they had undertaken municipal valuations on behalf of the Municipality, of which 24.5% were municipal valuers and 75.5% contract valuers.

Table 5.2: Provincial distribution of respondents – municipal valuers and contract valuers

Question 3.2 If you have participated in or compiled a valuation roll since the introduction of the MPRA, in which area was this performed?

Area of value	Municipal Valuers	Contract Valuers
Western Cape	3	15
Gauteng	4	4
Mpumalanga	2	7
KwaZulu Natal	0	0
North West	1	1
Free State	0	2
Eastern Cape	2	12
Northern Cape	0	1
Limpopo	0	1
Missing	2	0
Total	14	43
Percentage	24.5%	75.5%

The majority of these valuers, as noted in Table 6 below, reported having valued residential, commercial and industrial properties, with 19.9% having valued petrol filling stations and 22.7% having valued agricultural properties.

Table 6: Analysis of property types valued

Question 3.3: Which of the following property types have you valued for municipal valuations?

Type of Property	No. of Respondents	Percent
Residential	50	35.5%
Commercial	47	33.3%
Industrial	42	29.8%
Agriculture	32	22.7%
Hotels	20	14.2%
Petrol Filling Station	28	19.8%
Hospital	24	17.0%
Special Property	16	11.4%

The remaining respondents included valuers who had specialised knowledge across a broad range of property types, e.g. churches, mines, servitudes, communal land, hotels, golf estates. Multiple responses were possible in responding to these questions.

4.7.1.3.2 The respondents were asked direct questions in relation to the general valuations they performed on behalf of the local authority.

Table 7.1: Ability to timeously complete valuations

Question 3.4.1: Do you have sufficient time to complete the valuations assigned to you?

Province	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Western Cape	10	45.5%	12	54.5%
Gauteng	2	20.0%	8	80.0%
Mpumalanga	5	45.5%	6	54.5%
KwaZulu Natal	0	0.0%	0	0.0%
North West	2	100.0%	0	0.0%
Free State	2	100.0%	0	0.0%
Eastern Cape	9	56.3%	7	43.8%
North Cape	1	100.0%	0	0.0%
Limpopo	0	0.0%	2	100.0%

From Table 7.1, it can be seen that only a slight majority of valuers (54.5%) in the Western Cape and Mpumalanga areas indicated that they did not have sufficient time to complete the valuations assigned to them.

Table 7.2: Application of specific methodology

Question 3.4.2: Are you instructed to apply a specific methodology?

Province	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Western Cape	8	36.4%	14	63.6%
Gauteng	6	60.0%	4	40.0%
Mpumalanga	6	54.5%	5	45.5%
KwaZulu Natal	0	0.0%	0	0.0%
North West	2	100.0%	0	0.0%
Free State	2	100.0%	0	0.0%
Eastern Cape	11	68.8%	5	31.3%
North Cape	0	0.0%	1	100.0%
Limpopo	2	50.0%	2	50.0%

However, valuers in Gauteng (80%) and Limpopo (100%) were clearly allocated insufficient time. The remaining North West and Free State, valuers had sufficient time (100%) with the Eastern Cape valuers indicating in the majority (56.3%) had sufficient time.

From Table 7.2 it can be seen that only the valuers in the Western Cape (63.6%) and Northern Cape (100%) recorded in the majority that they were instructed to apply a specific methodology. Although, save for the Eastern Cape (68.8%), the remaining provinces indicated an average split of approximately 50% between their valuers. Clearly, there are indications that the freedom to select one's own methodology application is questionable, certainly in the Western Cape.

Table 7.3: Valuers' opinions on being compromised

Question 3.4.2.1: Are you ever of the opinion that as a valuer you are partially compromised, i.e. the methodology you would wish to apply are ever challenged by the local authority?

Province	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Western Cape	17	77.3%	5	22.7%
Gauteng	7	70.0%	3	30.0%
Mpumalanga	8	72.7%	3	27.3%
KwaZulu Natal	0	0.0%	0	0.0%
North West	1	50.0%	1	50.0%
Free State	1	50.0%	1	50.0%
Eastern Cape	12	75.0%	4	25.0%
North Cape	0	0.0%	1	100.0%
Limpopo	1	50.0%	1	50.0%

When asked whether they ever felt compromised, the majority of respondents in the larger provinces (Western Cape: 77.3%, Gauteng: 70%, Mpumalanga: 72.7% and the Eastern Cape: 75%) reported that they felt only marginally compromised. In the remaining provinces, i.e. Free State, North West and Limpopo, 50% of the respondents felt that they had been partially compromised.

As noted from Table 7.4 below, only the smaller provinces, i.e. Free State, Northern Cape and Limpopo, reported substantial challenges. In the remaining provinces there was a pronounced high scoring indicating that their methodology was never challenged.

Table 7.4: Application of methodology

Question 3.4.2.2: Is the methodology that you wish to apply ever challenged by the local authority?

Province	No. of Respondents (No)	Percent (No)	No. of respondents (Yes)	Percent (Yes)
Western Cape	17	77.3%	5	22.7%
Gauteng	9	90.0%	1	10.0%
Mpumalanga	11	100.0%	0	0.0%
KwaZulu Natal	0	0.0%	0	0.0%
North West	2	100.0%	0	0.0%
Free State	1	50.0%	1	50.0%
Eastern Cape	13	81.3%	3	18.8%
North Cape	0	0.0%	1	100.0%
Limpopo	2	50.0%	2	50.0%

From Table 7.5 by far the majority of valuers save for the Eastern Cape and Free State (50%), clearly desired for all property to be inspected at the time of the general valuation.

Table 7.5: Inspection of properties

Question 3.4.3: Do you agree that all properties should be inspected?

Province	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Western Cape	4	18.2%	18	81.8%
Gauteng	3	30.0%	7	70.0%
Mpumalanga	4	36.4%	7	63.6%
KwaZulu Natal	0	0.0%	0	0.0%
North West	0	0.0%	2	100.0%
Free State	1	50.0%	1	50.0%
Eastern Cape	4	25.0%	12	75.0%
North Cape	0	0.0%	1	100.0%
Limpopo	1	50.0%	1	50.0%

From Table 7.6, it is clearly noted that the valuers are not supplied with the correct source documents. In the Western Cape, 72.7% of the valuers indicated that the source documents are not corrected. This was amongst the highest reported by any of the provinces. Although North West, Free State and Eastern Cape all reported that these documents were incorrect, Gauteng and Mpumalanga reported variances in the accuracy at 70% and 54.5%, respectively, while for the Eastern Cape the variance was 87.5%. If the source documentation provided by the local

authority is incorrect, the entire process will fail and this reflects the importance of good quality control from the outset.

Table 7.6: Provision of source documents

Question 3.4.4: Are the source documents provided to you by the local authority correct?

Province	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Western Cape	16	72.7%	6	27.3%
Gauteng	7	70.0%	3	30.0%
Mpumalanga	6	54.5%	5	45.5%
Kwazulu Natal	0	0.0%	0	0.0%
North West	2	100.0%	0	0.0%
Free State	2	100.0%	0	0.0%
Eastern Cape	14	87.5%	2	12.5%
North Cape	1	100.0%	0	0.0%
Limpopo	0	0.0%	2	100.0%

The remainder of this section addressed the type of valuations performed and the extent of the quality control that was undertaken. The use of guidelines, current practices and due diligence that had been exercised when performing the valuations were also explored.

4.7.1.3.3 Quality control is extremely important for the production of an accurate valuation roll. The question addressed the quality control conducted on the valuations. The following questions were put to respondents. The responses recorded in Tables 8.1, 8.2 and 8.3 below are only for the Western Cape.

Table 8.1: Quality control performance

Question 3.5.1: Does the local authority perform quality control on your valuations?

Western Cape	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Residential	13	59.1%	9	40.9%
Commercial	12	54.5%	10	45.5%
Industrial	14	63.6%	8	36.4%
Special PFS	15	68.2%	7	31.8%
Special Other	16	72.7%	6	27.3%

The respondents who had valued residential and commercial properties indicated levels of quality control performed by the local authority at less than 50%. The quality control deteriorates further with limited control over Industrial (36.4%), Petrol Filling Stations (31.82%) and Specialised “other” (27.3%) properties being evident.

Table 8.2: Consistency of control

Question 3.5.2: Do you find the control consistent?

Western Cape	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Residential	5	27.8%	13	72.2%
Commercial	3	20.0%	12	80.0%
Industrial	3	17.6%	14	82.4%
Special PFS	1	6.3%	15	93.7%
Special Other	2	11.1%	16	88.9%

The consistency of quality control is extremely poor. All types of property - including residential valuations (81.8%), which make up the largest segment of the valuation roll - are highly criticised, with little evidence of any consistency.

Table 8.3: Independence of quality control process

Question 3.5.3: Is the quality of the control undertaken by an independent person?

Western Cape	No. of Respondents (No)	Percent (No)	No. of Respondents (Yes)	Percent (Yes)
Residential	4	18.2%	18	81.8%
Commercial	3	13.6%	19	86.4%
Industrial	3	13.6%	19	86.4%
Special PFS	1	5.0%	19	95.0%
Special Other	2	9.1%	20	90.9%

There was no independence in the performance of the quality control, with as many as between 81.8% and 95% of the respondents confirming this to have been the case.

4.7.1.3.4 Valuation Guidelines

This subset of questions (Questions 3.6.1 to 3.6.3) was aimed at establishing whether guidelines were provided and if so, whether the respondents found them

explanatory and useful in ensuring consistency. All 57 respondents were requested to answer these questions and multiple responses were allowed. The total number of respondents was 27, but not all the questions were answered.

Table 9.1: Provision of precise guidelines

Question 3.6.1: Are you provided with precise guidelines to value?

	No. of Respondents	Yes	Percent Yes	No	Percent No
Residential	50	17	34.0%	33	66.0%
Commercial	47	23	48.9%	24	51.1%
Industrial	42	21	50.0%	21	50.0%
Special Property PFS	28	9	32.1%	19	67.9%
Special Other – Hotels, etc.	30	7	23.3%	23	76.7%

The majority (66%) of residential 50 valuers respondents were not provided with precise guidelines. Fifty one percent (51.1%) of the commercial valuers and 50% of industrial valuers agreed that their guidelines were not precise. Sixty eight percent (67.9%) of the respondents who had undertaken PFS valuations and 76.7% of those who had undertaken valuations of specialised properties, also reported not having been provided with precise guidelines.

From Table 9.2, it is clear that the guidelines provided were not clear across all valuation sectors.

Table 9.2: Explanatory guidelines

Question 3.6.2: Do you find the guidelines explanatory?

	No. of Respondents	Yes	Percent Yes	No	Percent No
Residential	50	18	36.0%	32	64.0%
Commercial	47	24	51.1%	23	48.9%
Industrial	42	22	52.4%	20	47.6%
Special Property PFS	28	9	32.1%	19	67.9%
Special Other – Hotels, etc.	30	7	23.3%	23	76.7%

As is noted in Table 9.3, there was no consensus as to whether the guidelines provided uniformity. Fifty eight percent (58%) of the residential valuers were of the opinion that they did not, whereas 55.3% of the commercial and industrial valuers (57.1%) indicated that they did. In the case of special properties the valuers both agreed that guidelines would not ensure uniformity.

Table 9.3: Guidelines provide uniformity

Question 3.6.3: Do the guidelines ensure uniformity?

	No. of Respondents	Yes	Percent Yes	No	Percent No
Residential	50	21	42.0%	29	58.0%
Commercial	47	26	55.3%	21	44.7%
Industrial	42	24	57.1%	18	42.9%
Special Property PFS	28	11	39.3%	17	60.7%
Special Other – Hotels, etc.	30	10	33.3%	20	66.7%

4.7.1.3.5 Due Diligence when performing valuations

All the respondents were questioned on the current practice and due diligence in performing valuations. The question allowed for multiple answers and 40% responded. The majority of the respondents answered this question. Eighty four percent (83.9%) indicated that they do inspect the properties they value. Eighty six percent (85.5%) agreed that all properties valued should be inspected. A sobering finding was that 94.2% of the respondents were of the opinion that data-collectors had not been adequately trained. Fifty five percent (55.4%) of respondents agreed that there were insufficient valuers to assist the local authorities with their valuations, but thought that there were sufficient valuers (57.1%) to attend to objections to the municipal valuations. However, 49.1% of respondents believed that there was insufficient time for objectors to respond.

Comments noted in response to these sections raised the concern about the poor information that they were provided with when compiled by data-collectors who were inadequately trained and that there was a need for more public participation.

Time constraints for the non-inspection of properties were seen to be a negative factor (see Table 10).

Table 10: Current practice and due diligence

Question No.	Question	No. of Respondents No	Percent No	No. of Respondents Yes	Percent Yes	Total
3.7.1	Do you inspect properties that you are instructed to value?	9	16.1%	47	83.9%	56
3.7.2	Do you agree that all properties should be inspected?	8	14.5%	47	85.5%	55
3.7.3	Do you think that data-collectors are adequately trained?	49	94.2%	3	5.8%	52
3.7.4	Do you think that there are sufficient registered valuers to assist the local authority with the municipal valuations (General Valuations)	31	55.4%	25	44.6%	56
3.7.5	Do you think that there are sufficient registered valuers to attend to the objections to the municipal valuations (General valuations)?	24	42.9%	32	57.1%	56
3.7.6	Do you agree that the objection period does not provide for sufficient time period for the objector to object?	29	50.9%	28	49.1%	57

4.7.1.4 Section D – Objection process

Question 4 was directed to valuers in private practice who performed valuations or assisted with objections on behalf of the municipal valuer. All participants were requested to identify the metropolitan areas where the valuations were undertaken, as well as identify the types of valuations. Thereafter, a series of questions was prepared to address various valuation issues, including the timing of objections and appeals, the use of valuation guidelines, the inspection of property and the valuer's partiality in the process.

There were 45 valuers in private practice and 24 who assisted the municipality in responding to objections who responded to this section of the questionnaire, representing a large percentage of metropolitan and smaller municipalities. A further examination of the data was undertaken and it was evident that only 13 valuers in all provinces had valued petrol filling stations, with only two respondents being located in the Western Cape.

The respondents were requested to answer some general questions pertaining directly to the post objection period. The questions are noted in Table 11 below.

Table 11: Post objection process

Question No.	Question	No. of Respondents No	Percent No	No. of Respondents Yes	Percent Yes	Missing	Percent	Total
4.4.1	Do you have sufficient time to complete objections?	23	32.9%	44	62.9%	3	4.3%	70
4.4.2	Do you have sufficient time to complete appeals?	16	23.9%	36	53.7%	15	22.4%	67
4.4.3	Are you ever of the opinion that a municipal valuer is partially compromised when instructed to value in accordance with specific guidelines?	27	39.1%	35	50.7%	7	10.1%	69
4.4.4	Do you agree that all properties valued by the municipal valuer should be inspected?	10	14.3%	58	82.9%	2	2.9%	70
4.4.5	Are the reasons provided by the municipal valuer in response to an objection adequate to draft an appeal?	39	54.9%	11	15.5%	21	29.6%	71

Forty-four respondents (63%) agreed that there was sufficient time to complete objections and 53.7% agreed that there was sufficient time to complete appeals. Of the respondents, 50.7% agreed that the municipal valuers were partially compromised when instructed to value in accordance with specific guidelines and 15.5% agreed that all properties valued by the municipal valuer should be inspected.

Only 15.5% of the respondents who answered this question were of the opinion that adequate reasons were provided by the municipal valuer in response to an appeal.

4.7.1.5 Section E – General question for all participants

The section related to municipal policy and practice as well as the property owner's role in the municipal valuation process. All respondents were requested to

complete this section. There were 92 respondents. The questions were all of a general nature and required a “yes” or “no” answer, but respondents were also provided with an opportunity to comments.

From the response noted in Table 12 below, an average of 85.1% of the sample surveyed answered this question. Of the respondents, 68.5% agreed that a separate organisation should oversee the municipal valuations. An overwhelming 97% agreed that an independent valuation officer should control the valuations.

Table 12: Independence and political influence on municipal valuations

Quest. No.	Question	No. of Respondents	No	Percent No	Yes	Percent Yes
5.1.1	A separate organisation should oversee the valuations?	92	29	31.5%	63	68.5%
5.1.2	Valuations should be controlled by an independent valuation officer of the Valuer General (Australia)?	67	2	3.0%	65	97.0%
5.1.3	Municipal valuers should be appointed by the Provincial Administrator?	89	51	57.3%	38	42.7%
5.1.3.1	Politicians influence the municipal valuer to ensure that there will be sufficient rateable income from the valuations to balance the Councils budget?	84	65	77.4%	19	22.6%
5.1.3.2	Politicians have little or no knowledge about the valuation process?	91	3	3.3%	88	96.7%
5.1.3.3	Municipal valuers should be given the discretion when the general valuation roll should be produced?	89	51	57.3%	38	42.7%
5.1.3.4	Do you think that the municipal valuer is provided with sufficient funding to prepare a valuation roll?	84	59	70.2%	25	29.8%

From the response, 57.3% of respondents agreed that the Provincial Administrator should not appoint the municipal valuer, while 77.4% did not agree that politicians influenced the municipal valuer to ensure sufficient rateable income (see Table 12). However, 96.7% agreed that the politicians had little knowledge of the municipal valuation process.

As noted from Table 12, 57.3% agreed that the municipal valuer should be given the discretion to determine when the general valuation roll should be carried out. Of the respondents, 70.2% indicated that there was also insufficient funding made available to prepare a valuation roll.

Based upon the responses in Table 13, the independence of the Appeal Board appears to be endorsed with 59.1% of the (n=44) respondents agreeing that it was independent and operated separately from the local authority. However, 48.8% (n=84) agreed that the municipal valuer could influence the Appeal Board, which questions the integrity of the Appeal Board. Of the respondents, 76.4% (n=89) agreed that before a matter is referred to an Appeal Board for a final determination, an owner should be given a hearing.

Table 13: The independence of the valuation appeal board

Quest No.	Questions/ Statements	No. of Respondents	No	Percent No	Yes	Percent Yes
5.1.4	The Valuation Appeal Board operates independently from the local authority.	44	18	40.9%	26	59.1%
5.1.4.1	Do you think that the municipal valuer can influence the decision of the valuation appeal board?	84	43	51.2%	41	48.8%
5.4.1.2	Do you think that before a matter is referred to the appeal board for a final determination and owner should be given a hearing?	89	21	23.6%	68	76.4%

Finally, the owner's role in the municipal valuation process was explored, with 92 respondents to this question. As noted in Table 14 below, 66.3% of the respondents (n=92) agreed that owners were generally co-operative, but 68.1% (n=91) agreed that they did not provide accurate information.

In relation to property owners understanding the process, 87.9% supported the fact that most property owners did not understand the valuation process and 97.8% agreed that property owners should be better informed. Clearly, in the respondents' opinions (91.2%), owners would be more co-operative if they understood the process. Standard valuation guidelines should, according to 91.2% respondents, be provided electronically (see Table 14).

Table 14: Property owner's role in the municipal valuation process

Question No.	Question	No. of respondents	No	Percent No	Yes	Percent Yes
5.2.1	Do you find the property owners are generally co-operative	92	31	33.7%	61	66.3%
5.2.2	Do property owners provide accurate information?	91	62	68.1%	29	31.9%
5.2.3	Do you think property owners do not understand the valuation process	91	11	12.1%	80	87.9%
5.2.3.1	Property owners should be better informed	91	2	2.2%	89	97.8%
5.2.3.2	If the property owner understood the valuation process he would be more co-operative?	91	8	8.8%	83	91.2%
5.2.4	Standard valuation guidelines should be placed in the public domain, e.g. available on the internet	91	8	8.8%	83	91.2%

4.7.2 Part 2 Petrol filling station valuations (Question 6)

The set of questions that followed was directed at valuers with experience in the valuation of petrol filling stations, because the valuation of petrol filling stations is specialised and only a limited response was anticipated. A total of 54 respondents who had valued petrol filling stations answered this section, of which 4 respondents did not answer fully. The experience of 50 were provided and summarised as follows:

Table 15: Types of client for whom valuations are performed

Question 6.1: Indicate the type of organisation on whose behalf you performed valuations?

Organisation	Frequency
Private Client	15
Oil company	1
Local authority	2
Private & Oil company	9
Private & Oil company & local authority	4
Private Clients & local authority	9
Total	40

Question 6.2 of this section established the nature of the valuer's client base, and the number of petrol filling stations valued in a five-year cycle. The respondents were also requested to provide information regarding the different types of valuations performed and were asked general questions about the methodology used.

The average number of petrol filling stations that were valued by the respondents over the past 5 years was as follows: -

Table 16: Number of petrol filling stations valuer respondents in a five-year period

Question 6.2: How many petrol filling stations have you valued in the past 5 years?

Number of petrol filling stations valued	Frequency	Percentage
Between 0 - 5 years	19	46.3%
Between 6 -10 years	9	22.0%
Between 11-20 years	5	12.2%
Between 21-30 years	4	9.8%
31 years plus	4	9.8%
Total	41	100%

The types of valuations performed by the respondents were mostly for purchase and sale, with only 21.4% (n = 9) of the valuers having valued petrol filling stations for municipal valuation purposes (See Table 17).

Table 17: Purposes of petrol filling station valuations

Question 6.3: Indicate the various types of petrol filling stations valuations that you perform from the list below?

	Frequency	Percentage
Purchase & sale	14	33.3%
Municipal Valuations	9	21.4%
Expropriations	1	2.4%
Purchase & sale & local authority	9	21.4%
Purchase & sale & oil company	1	2.4%
Purchase & sale & others	8	19.0%
Total	42	100.0%

Valuers were asked if the depreciated replacement cost value plus the site value is likely to produce a more accurate municipal valuation. Of the respondents, 91.7% (n=48) indicated that this would not be accurate.

Table 18: Accuracy of DRC method

Question 6.4: A depreciated replacement cost method of valuation plus the site value will produce a more accurate and fair valuation of the municipal value thus providing for fair rates and taxes?

	Frequency	Percent
No	44	91.7%
Yes	4	8.3%
Total	48	100%

Various valuers commented on this approach (see Appendix H). Location is the main determinant of value, but the DRC method was not considered as a true reflection of value. Petrol stations were seen as income producing properties and values were based on litreage and the income stream. Thus, the income approach should be used.

Several direct questions were asked in relation to the valuation of petrol filling stations. Of the respondents, 74.5% (n=51) indicated that, in their opinion, where behind the pump facilities are valued as a percentage of turnover, the rental would not be market related when compared to surrounding commercial properties (see Table 19).

Table 19: Respondents' opinions on market related rental and turnover rent

Quest No.	Question	No. of Respondents	No	Percent No	Yes	Percent Yes
6.5	If the behind the pump facilities are valued as a percentage of turnover will the rental be market related when compared to surrounding commercial properties?	51	38	74.5%	13	25.5%
6.6	Are behind the pump facilities usually valued as a percentage of turnover?	51	42	82.4%	9	17.6%

As noted in Table 19 above, 82.4% agreed that the behind the pump facilities are not valued as a percentage of turnover. From the comments made by the respondents (see Appendix I), it was noted that the turnover rentals should be a fair indication of value, as the value is dependent on pumping capacity.

It was considered necessary to confirm whether the behind the pump facilities should be valued based on open market rentals in the area. As can be noted in Table 20, 69.4% of the respondents were clearly of the opinion that market rentals in the area should form the basis of valuation. The rentals should be extracted from rentals within the commercial node and should be similar properties.

Table 20: Behind the pump facilities to be based upon the area market related rentals

Question 6.7: Are the behind the pump facilities usually based upon market related rentals in the area?

	Frequency	Percent
No	15	30.6%
Yes	34	69.4%
Total	49	100.0%

Valuers performed valuations for various reasons. The respondents were requested to comment on whether the rental of the forecourt was always based upon the turnover, or throughput, which is the general application when valuing petrol filling stations (see Table 21). If this were the accepted approach, would there be a different approach for the various types of valuations performed?

Table 21: Forecourt rental determination

Question 6.8: Are the forecourt rentals always based upon the turnover or throughput of the forecourt?

	Frequency	Percent
No	9	18.4%
Yes	39	79.6%
Total	48	98.0%
Missing	1	2.0%
Total	49	100.0%

As noted in Table 21 above, 79.6% (n=48) of the respondents always based the forecourt rental on the throughput of the forecourt.

The respondents were asked whether they had knowledge of the oil companies applying a different formula to the rental of the forecourt. The majority (55.1%) indicated that they had not.

Table 22: Use of different formula for oil companies

Question 6.9: Is the rental of the forecourt based upon different formula for oil companies?

	Frequency	Percentage
No	27	55.1%
Yes	8	16.3%
Total	35	71.4%
Missing	14	28.6%
Total	49	100.0%

From the comments noted (see Appendix I.1), a respondent noted for example that Engen worked on a sliding scale based on throughput, whereas BP used a fixed percentage of throughput, irrespective of literage. The formula was considered to be a closely guarded secret and problematic for valuers.

Knowledge of the tied lease is important in the assessment of value. The question raised was whether the tied lease arrangement would provide the oil company with a fair return on the site. The majority (86.4%) agreed that it might not provide a fair return for the site. These leases are influenced by petrol sales, site branding and other undisclosed benefits that may be afforded to the operator (see Table 23).

Table 23: Tied leases do not provide a market value

Question 6.10 A tied lease, *i.e.* a lease between the oil company and the operator, may not necessarily provide the oil company with a fair return on the site?

	Frequency	Percentage
No	6	13.6%
Yes	38	86.4%
Total	44	100.0%

The highest and best usage of a property is a fundamental consideration in the determination of the value. The importance of considering the highest and best in valuing petrol filling stations for municipal valuations was explored and the valuers were questioned on this application.

As can be seen from the response in Table 24, 39.6% of the 48 respondents agreed that the highest and best usage was not a consideration for municipal valuations. Of the 12 respondents in the Western Cape, only 4 agreed that highest and best usage was not a factor.

Table 24: Highest and best usage response

Question 6.11: The highest and best usage is not a valuation consideration when undertaking a general valuation?

	Frequency	Percentage
No	20	39.2%
Yes	31	60.8%
Total	51	100.0%

The respondents were then questioned as to whether the municipal valuer should always consider highest and best usage when determining a general valuation. Of the 51 respondents, 60.8% were of the opinion that it should be a consideration when undertaking a valuation for a petrol filling station.

Table 25: Municipal valuers' responses to best usage for a petrol filling station

Question 6.12: The municipal valuer always considered highest and best usage when undertaking a general valuation for a petrol filling station?

	Frequency	Percentage
No	29	60.4%
Yes	19	39.6%
Total	48	100.0%

Notwithstanding the highest and best usage not being a consideration in general valuations (Table 24), it should always be considered (60.8%) when doing a municipal valuation for a petrol filling station (Table 25).

The respondents were asked if the head lease, *i.e.* the lease between the oil company and the property owner should reflect a market related value. Of the 51 respondents, 86.3% were of the opinion that the head lease was market related (see Table 26).

Table 26: Head leases should be market related

Question 6.13: A head lease, *i.e.* a lease between the oil company and property owner (landlord) should be market related?

	Frequency	Percentage
No	7	13.7%
Yes	44	86.3%
Total	51	100.0%

The responses to questions Question 6.15 to Question 6.19 are recorded as follows (see Table 27): -

Table 27: Valuation of forecourt consideration

Question No.	Question	Total No. of Respondents	No	Percent No	Yes	Percent Yes
6.14	Does the Profits Method equate to the market value for the land component of the forecourt?	48	17	35.4%	31	64.6%
6.15	Does the operator's management of the site affect the valuation of the property?	47	6	12.8%	41	87.2%
6.16	If the operator's management of the site affects the valuation, do you adjust the municipal valuations and, if so, how (please insert comment to reply)?	47	34	72.3%	13	27.7%

Of the 48 respondents, 64.6% agreed that the application of the Profits Method would equate to the market value of the land component of the forecourt (see Table 27).

The management of the petrol filling station will affect the value of the site. As noted, 87.2% of the respondents agree with this statement. But although 87.2% of the respondents agreed that the operator's management affects the value 72.3% would not adjust the value when performing a general valuation if the management affects the value of the property (see Table 27).

Valuers were asked to comment specifically on the nature of this adjustment (see Appendix J). The municipal value assumes vacant possession. Therefore, the valuer ignores the operator. Thus, should the fuel throughput be low in relation to the PFSs in close proximity (similar exposure), the same dynamics are applied. The management should not be a factor (either good or poor management affect the value) and this will be reflected from the throughput. The effect of poor management will result in an adjustment to the rental.

In addition to poor management, lack of maintenance, creating poor kerb appeal, ineffective marketing, insufficient signage, *etc.* will naturally affect the throughput figures (higher/lower) and thus increase or decrease the effective forecourt rental.

Table 28: Effect on the use of the Profits Method on rating

Question 6.17 Do you agree that the Profits Method may not provide a valuation for just and equitable rates and taxes?

No. of Respondents	Yes	Percent Yes	No	Percent No
46	20	43.5%	26	56.5%

As is noted from Table 28 above, when applying the Profits Method of valuation, in the opinion of 56.5% of the respondents, it may not have an effect on just and equitable rates and taxes.

From the comments obtained (see Appendix K), consistency in the methodology applied was considered important when undertaking municipal valuations. However, a valuer must consider highest and best usage. Petrol filling stations are specialised and the Profits Method is the correct approach, unless there are no restaurants or workshops, *etc.*, in which event, the property can be valued as vacant, based upon comparisons of similar throughput sites, and the buildings could be ignored or depreciated, due to the oil company erecting them at its own cost.

Market norms should be applied where possible. The factors also depend on the litreage pumped. If below a certain amount, the petrol filling station is in any event not feasible.

The valuer's integrity was explored by asking whether the respondent agreed that when performing a municipal valuation on a petrol filling station, the valuer is not given discretion as to the applicable methodology that should be applied. As noted in Table 29 below, 60% of the 30 respondents did not agree that they were instructed on a specific methodology although only 9 respondents had performed municipal valuations.

Table 29: Valuer's discretion regarding applicable methodology to be used when valuing petrol filling stations

Question 6.18: Do you agree that the valuer, when performing a municipal valuation on a petrol filling station, is not given discretion as to the applicable methodology that he/she should apply?

No. of Respondents	Yes	Percent Yes	No	Percent No
30	12	40.0%	18	60.0%

The respondents were requested to confirm that the valuer should be given discretion to apply his own methodology when valuing petrol filling stations.

Eighty five percent (85.1%) of the respondents agreed with this statement (see Table 30). From the comments extracted (See Appendix L), it was interesting to note that the need for guidelines to ensure consistency was highlighted. It was also an opinion that professional bodies and voluntary associations should ensure consensus amongst members.

The outcome of the application of any valuation methodology should reflect the value of the property. If the current use of the property is not being valued it should be pointed out to the local authority and the reasons should be given, e.g. poor petrol filling station operation, land more valuable for other types of developments currently taking place or about to happen. The local authority, in providing guidelines on the valuation process, needs to ensure uniformity. One respondent noted that not too much latitude should be allowed, however, if the oil company does not provide the throughput, then the local authority must have an alternative method based on specific factors.

Table 30: Application of valuer's discretion to apply own methodology

Question 6.19: The valuer should be given discretion to apply his own methodology when valuing petrol filling stations?

No. of Respondents	Yes	Percent Yes	No	Percent No
47	40	85.1%	7	14.9%

The role of the oil companies in providing data was raised in Question 6.20. The responses to the questions are noted below (See Table 31).

Table 31: Provision of data by oil companies

	Question 6.20	Total No. of Respondents	Yes	Percent Yes	No	Percent No
6.20.1	The oil companies should provide the municipal valuer information every three years?	50	42	84.0%	8	16.0%
6.20.3	Oil companies must supply on request all rental details of behind the pump facilities?	49	42	85.7%	7	14.3%
6.20.4	The operator should supply all details on request?	49	47	95.9%	2	4.1%
6.20.5	Should the compulsory provision of data for oil companies and/or operators be legislated?	47	30	63.8%	17	36.2%

The questions were broad based in order to allow the respondents more flexibility in their responses. The majority of valuers (84%) agreed that the oil companies should provide data every three years. However, only 52.2% of the respondents agreed that a fine should be levied in the event of non-compliance. Details of the rentals should, in the opinion of 85.7% of the respondents, be supplied for the behind the pump facilities and 95.9% respondents agreed that the operator should supply details on request.

Certainly, the legislating of the compulsory provision of data was supported by 63.8% of respondents. From the comments extracted (Appendix M), one respondent suggested that legislation should prohibit the owners, operators and oil company from objecting to municipal valuations where this information is not supplied. Another remarked that we could not control the circumstances under current situations and that we have enough legislation that cannot be enforced.

Table 32: Oil companies' co-operation in the valuation process

	Question 6.21	Total No. of Respondents	Always	Always Percent	Sometimes	Sometimes Percent	Never	Never Percent
6.21.1	Oil companies withhold data and information	44	11	25.0%	32	72.7%	2	4.5%
6.21.2	Oil company uncooperative.	44	10	22.7%	33	75.0%	1	2.3%
6.21.3	Oil company to disclose information of properties sold.	42	18	42.9%	23	54.8%	1	2.4%
6.21.4	Oil company instructs the valuer on the valuation method to be employed.	40	5	12.5%	21	52.5%	14	35.0%
6.21.5	Oil company pays a premium for branding a site even if throughput is not justified.	41	6	14.6%	28	68.3%	7	17.1%
6.21.6	In your experience are you supplied with sufficient information to perform a general valuation for a petrol filling station?	40	10	25.0%	21	52.5%	9	22.5%

An investigation was pursued to ascertain whether the oil companies purposely withhold information so as to influence the valuation process. A series of questions were asked to ascertain the extent of this (see Table 32) as noted above. The majority of valuers (72.7%) were of the opinion that the oil companies “sometimes” withhold data and information, while 25% believed that this was “always” the case. Yet 75% were also of the opinion that they were “sometimes un-cooperative”, while 22.7% indicated that they were “always un-cooperative”.

When questioned about the oil company instructing the Valuer on which valuation methodology to apply, 52.5% responded “sometimes” and 35% responded “never”. Notably, 12.5% of the respondents reported that this was “always” the case.

Forty-one valuers had responded to the initial question on a premium being paid for branding by the oil companies, even if throughput was not justified. Of the

respondents to this question, 14.6% agreed that it was “always” paid, 68.3% noted this as “sometimes” being the case, and 17.1% responded that it was “never” a consideration.

Forty respondents answered the question of whether, in their experience, they had been supplied with sufficient information to perform a general valuation for a petrol filling station. As noted in Table 32 (above) 25% responded that they were “always” supplied with sufficient information. A further 52.5% responded “sometimes” and 10% indicated that they were “never” supplied with sufficient information.

The same set of questions (Question 6.21) was re-analysed to see the response from those only doing municipal valuations. From these responses, it was seen that, in the majority of proposals, oil companies “sometimes” withheld information and were un-cooperative. The disclosure of information was “sometimes” provided on the sale of their property and they would similarly “sometimes” pay a premium for the branding. Only 2 valuers responded that they were “always” provided with sufficient information.

In relation to instructions being given on how to perform a valuation, only 25% of the eight municipal valuers indicated that this was never the case. Respondents who commented on these questions noted that a standard method of valuation should be employed to enable the valuer to do the valuations, with the oil companies providing the data. Data provided by the operators was considered to be unreliable (see Table 33).

Table 33: Municipal valuers response on oil companies' co-operation

	Question 6.21	Total No. of Respondents	Always	Always Percent	Sometimes	Sometimes Percent	Never	Never Percent
6.21.1	Oil companies withhold data and information	8	1	12.5%	6	75.0	1	12.5%
6.21.2	Oil company uncooperative	8	0	0.0%	7	87.5%	1	12.5%
6.21.3	Oil company to disclose information of properties sold	8	2	25.0%	5	62.5%	1	12.5%
6.21.4	Oil company instructs valuer on method to be employed	8	1	12.5%	5	62.5%	2	25.0%
6.21.5	Oil company pays a premium for branding a site even if the throughput is not justified	8	1	12.5%	5	62.5%	2	25.0%
6.21.6	In your experience are you supplied with sufficient information to perform a general valuation for a petrol filling station?	8	2	25.0%	4	50.0%	2	25.0%

Respondents were asked to answer whether the oil companies paid a premium for the branding of the site (See Table 34).

Table 34: Effects of site branding

	Question 6.22	Respondents	Always	Always Percent	Sometimes	Sometimes Percent	Never	Never Percent
6.22.7.1	Branding plays a large part of the value of the site?	43	15	34.9%	24	55.8%	4	9.3%
6.22.7.2	A valuer considers the "brand value" when valuing the site?	43	7	16.3%	19	44.2%	17	39.5%
6.22.7.3	The oil companies consider "brand value" for under-performing sites?	36	9	25.0%	25	69.4%	2	5.6%

There were only 43 respondents to this section, of which 34.9% indicated that this "always" applies to the value of the site.

The next question asked the respondents to indicate whether they considered the "brand value" of the oil company when valuing the site. In response, 44.3% of the

valuers responded that that they “sometimes” considered this value when undertaking a valuation, whereas 16.3% said they “always” considered it. The remaining 39.5% “never” considered it. The overall affect was that there was uncertainty as to the approach the valuer should follow, as noted in the results (see Table 34).

The respondents were asked whether the oil companies considered the brand values for under-performing sites. This is a factor that could influence the rental paid for the site, especially if it is a low throughput petrol filling station and a high rental is paid. The responses were that 25% considered this was always to be a consideration, while 69.4% indicated this was sometimes a consideration (see Table 34).

The respondents were then asked to provide an indication as to what percentage of the value of the property could be allocated to the brand value. These results were then analysed (see Table 35 below).

Table 35: Value allocated to branding

Question 6.23 To what extent do you consider the value that the brand will have on the value of the property?

Range of added brand vale	Frequency	Valid Percent
0	1	3.3%
0% - 5%	1	3.3%
11%-15%	1	3.3%
15%-20%	6	20.0%
21%-30%	6	20.0%
31%-40%	1	3.3%
41%-50%	2	6.7%
51%-60%	2	6.7%
61%-70%	2	6.7%
71%-80%	7	23.3%
81% -90%	1	3.3%
	30	100.0%

Although up to 43 respondents answered the previous questions relating to branding, there were 30 respondents to the question relating to the direct effect on the value of the site. From Table 35, 40% of the respondents indicated that branding added between 15%-30% of the value while 23% indicated that it could add as much as 71%-80% of the value of the site.

The respondents were then questioned as to whether there was a relationship between the values placed on petrol filling station sites and the commercial values in surrounding areas. The opinion of 63.8% of these respondents was that the values were the same (see Table 36 below).

Table 36: Analysis of values placed on petrol filling stations to comparable surrounding property

Question 6.24: Are the values placed on petrol filling station sites usually similar to commercial values placed on sites in surrounding areas?

Responses	Frequency	Percentage
No	27	36.2%
Yes	30	63.8%
Total	47	100.0%
Missing	94	
Total	141	

The comments noted by some of the respondents (see Appendix N) were that the land value would only apply to workshops and restaurants, *etc.* unless there was a long-term lease and the lease was based on a percentage of turnover. A noteworthy response was that the commercial land values and that of petrol filling stations cannot be compared because they do not have the same functional usage and that a servitude condition could affect the value. When making the comparison the valuer should compare petrol filling stations with other petrol filling stations and not to normal/retail commercial properties.

In Question 6.25 all the respondents were asked what the most commonly used method of valuation for a petrol filling station was. There were between 50 and 52 respondents, as not all respondents answered the question.

The respondents' answers are recorded in Table 37 below. The various types of components were cross-tabulated with the various methods of valuations applied.

The most common method for deriving the value of the forecourt is the Profits Method, as used by 92.3% of the valuers. No respondents reported using the DRC method. The remaining behind the pumps facilities were generally valued using the market data approach (72%), with that approach specifically used for workshops (86.4%), retail outlets (84%), restaurants (76.5%) and surplus land (98%). One respondent (2%) used the DRC method in determining the market value for behind the pump facilities and workshops.

Table 37: Application of methodology used for various PFS sections

Question 6.25 : In determining the market value of the petrol filling station, which method do you most commonly use?

Component	No. of Respondents	Profits Method	Percent	DRC	Percent	Market Value (Highest & Best usage)	Percent
Forecourt	52	48	92.3%	0	0.0%	4	7.7%
Behind the pumps (General)	50	13	26.0%	1	2.0%	36	72.0%
Workshops	52	7	13.5%	1	1.9%	44	84.6%
Retail outlets	50	8	16.0%	0	0	42	84.0%
Restaurant	51	12	23.5%	0	0.0%	39	76.5%
Surplus land	51	0	0.0%	1	2.0%	50	98.0%

DRC = Depreciated replacement cost

From the comments (Appendix O), one respondent noted that the initial approach is to value the forecourt by the Profits Method. If an alternative use is potentially higher, the usual investigations inherent in highest and best use should, in his opinion, be undertaken with particular consideration to "legally permissible". In a further comment, the respondent said that, where sufficient data is available, "behind the pumps" facilities should be compared to similar facilities at other petrol stations in a given area.

The respondents were then questioned on which methodology they would use when only municipal valuations were undertaken. Only 17 respondents had undertaken municipal valuations. From Table 38 below, it can be seen that the preferred method was the Profits Method for the forecourt and either the Market Value (taking into account the highest and best usage) or Profits Method for the behind the pump facilities. The DRC method is certainly not a preferred method of valuation, for either the forecourt or the behind the pump facilities.

Table 38: Methodology commonly applied for municipal valuations

Question 6.26 In determining the market value for the petrol filling station for Municipal purposes please indicate if you would apply a different method?

MUNICIPAL VALUATIONS	No.	Profits Method	Percent	DRC	Percent	Market Value (H&B)
Forecourt	17	16	94.1%		0.0%	1
Behind the pumps	17	3	17.6%	1	5.9%	13
Workshops	17	1	5.9%	1	5.9%	15
Retail	17	3	17.6%		0.0%	14
Restaurants	17	2	11.8%		0.0%	15
Land (Surplus)	17	0	0.0%		0.0%	17

Clearly, the DRC method of valuation is not a preferred method. Save for the valuation of forecourts where the Profits Method remains the preferred method, all other entities should be valued using the market approach taking into account the highest and best usage.

In Question 6.27, the respondents were asked to indicate the monthly percentage of the rental allocated to turnover. By addressing the indication of rental in relation to turnover, *i.e.* should the operator base the rentals as a percentage of turnover, it was anticipated the results would provide a percentage of throughput which should be allocated to rental.

The responses were recorded in Appendix P. However, although there were 18 respondents to this question, their responses were incomplete and therefore, no conclusions could be drawn.

In the final question, the respondents were asked to provide an indication of the average selling price of a petrol filling station, in Rands per kilolitre of petrol sold. Only three respondents answered the question and no conclusion could be drawn.

4.8 Questionnaire to oil companies

The questionnaire for the oil companies was prepared on the basis of direct questions with the provision for “yes” or “no” answers and comments (see Appendix Q).

Questions 1 and 2 related to the party completing the survey. The respondents were assured that their details would not be divulged. Question 3 addressed the valuation of the forecourt, the valuation methodology applied and the application of any specific formula.

Question 4 related to the value of the behind the pump facilities. The methodology and approach followed by the oil company were questioned. Questions 5 to 9 related to general valuations and the fair and equitable valuation methodology to determine the rates and taxes payable. The application of the DRC method, *i.e.* land plus the depreciated replacement cost, as a methodology was questioned as well as the disproportionate values that arise using the Throughput Method or Profits Method of valuation.

The respondents were also asked to comment on the added value of branding and the process to be followed when valuing petrol filling stations for municipal purposes.

4.9 Response from the oil companies

Despite numerous calls and emails, no response was obtained from any of the oil companies.

4.10 Summary

Overall poor quality control remained evident throughout the general valuation process by the municipal valuer. This also interfered with the potential to realise market value on the properties. In the Western Cape 59.1% of respondents (n=22) indicated that the local authority did not perform quality control on residential valuations, whereas 68.2% indicated that this was not evident for petrol filling stations, with 93.7% not finding any consistency. Ninety five percent (95%) of respondents noted that quality control was not performed by an independent person in the process of valuing petrol filling stations. Furthermore, valuers do not apply their independent judgment in the case of petrol filling stations and the oil companies were uncooperative in the valuation process and may influence the values.

Data provided is often not checked and clerks without valuation training perform functions for which they lack the requisite skill, especially in the residential sector. The data-collectors appointed are not valuers or appraisers and in many cases lack the knowledge to provide the correct source documents as was noted by 72.7% (n=24) of the respondents who assisted the Cape Town local authority.

Valuers in private practice (n=44) had addressed the post objection period, *i.e.* the period leading up to the appeal process. Fifty-one percent (51%) of the respondents had agreed that the municipal valuer would be partially compromised when instructed to value in accordance with specific guidelines. However, when reasons had been requested from the municipal valuer as to how he or she had arrived at their decision, 54.9% (n=71) responded that they were not adequate to draft an appeal.

Confidence in the valuation process was lacking as 68.5% of all respondents to that section of the survey (n=92) were of the opinion that a separate organisation should oversee the municipal valuations, with 97% agreeing that the valuations should be controlled by an independent officer. The appointment of a municipal valuer by the Provincial Administrator was not undermined with only 57.3% (n=89), indicating that this should not happen. This could also be as a result of as high as

48.8% (n=84) of respondents indicating that the municipal valuer could interfere or influence the decision of an Appeal Board.

Perhaps with a greater understanding of the valuation process in all sectors, the valuers found that 66.3% (n=92) of owners were co-operative. The majority of owners did not provide accurate information and did not in the opinion of 87.9% understand the valuation process, which would improve their co-operation, if they understood the process. It would also help if valuation guidelines, in the opinion of 91.2% of respondents, were placed in the public domain, e.g. the Internet. This was in line with other international offices, e.g., Valuer General, Office of the Valuer General.

According to 72.7% of the respondents the oil companies sometimes did not provide information (n=45) while 25% responded that it was always withheld. Where the information was provided it was often historical. Fifty two percent (52%) of the respondents (n=40) declared that they were only sometimes provided with sufficient information to perform a general valuation, with 22.5% noting that they were never supplied with the information. Although, 42.9% (n=42) indicated that oil companies would provide information on the sale of a property sold.

When filling stations are valued, 52.5% of valuers (n=40) indicated that they were sometimes instructed as to the methodology to apply and 12.5% stated that this was always the case. The Throughput Method was clearly the preferred method for all types of petrol filling station valuations and the Replacement Cost Less Depreciation Method of valuation plus the value of the site would not, in the opinion of 91.7% of the respondents (n=48), be a preferred method. This DRC method was not considered to provide a more accurate and fair valuation providing for rates and taxes. However, when considering the improvements made to the forecourt, the DRC method should apply.

The Throughput Method is adopted for valuing petrol filling stations by 94.1% of respondents (n=17) valuing for Municipal purposes, with the market value applied by 82.3% of respondents, taking into account the highest and best usage for the

behind the pump facilities. The best test was always comparability to similar sites that had been sold, where an analysis of that data would inform the valuer, but an experienced valuer must perform the valuation.

The behind the court facilities were to be valued as a percentage of turnover, according to 82.4% of respondents (n=51). However, 74.5% indicated that, when compared to surrounding commercial properties, it would not be market related. This value was dependent on the pumping ability of the forecourt and it would be best to base these rentals upon market related rentals in the area, according to 69.4% (n=49). The response to both the underlying market value and value as a percentage of turnover was found to be confusing, with similar responses to both questions - but there are anticipated differences with the oil companies applying their own formula.

The lease criteria are also important, with a tied lease not providing a fair return on the site, according to 86.4% (n=44), as opposed to 86.3 % (n=51) agreeing that a head lease, which should be market related, is in line with common practice.

When valuing the forecourt, in the opinion of 87.2% respondents (n=47), the operator's management of the site would affect the value of the petrol filling station. However, 72.3% of the respondents said they would not adjust their valuation if they were performing a general valuation. The reasons noted for this approach was that it was not necessary, as the municipal valuer should value the site as vacant, taking the throughput of petrol filling stations to be similar to that of surrounding stations, thereby eliminating the effects of poor management. In a mass valuation situation, many of these elements (precise throughput, management, *etc.*) would be difficult to quantify.

An unexpected finding to the survey questions was, when questioned on the equity of the DRC method for rating purposes, the majority of respondents (91.7%), did not agree on this. The DRC approach was, according to 94.1% (n=17) of respondents, never used when valuing for municipal purposes. However, when a similar question was asked regarding whether the respondent agreed that

the Profits Method might not provide a valuation for just and equitable valuations, 43.5% responded positively and 56.5% (n=46) did not agree.

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CHAPTER 5. CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The primary purpose of this thesis was to explore the application of the MPRA not resulting in market values being determined for petrol filling stations. This was phrased in the problem statement as: “The application of the MPRA does not result in market value being determined for petrol filling stations”.

In order to respond to the research question, it was necessary to review the effect of the local authority's input being in any way responsible for influencing or affecting the valuation of petrol filling stations in general valuations. The research needed to explore the processes and procedures concerning the manner in which the valuations were conducted by the local authority, the way in which the valuers responded, the overall confidence in the process and primarily, how valuations were performed for petrol filling stations. In addition, it was necessary to establish whether property valuers applied their judgement and principles in valuing all types of property. It was also necessary to understand the influence the oil companies had on the valuation of petrol filling stations.

5.2 Research questions

The research questions posed were as follows: -

- Question 1 How does the local authority input affect the valuation of petrol filling stations?
- Question 2 Do property valuers apply their independent judgment and apply principles in valuing all types of properties?
- Question 3 How do the oil companies influence the valuation of petrol filling stations?

5.3 Propositions

The propositions in response to these research questions were as follows: -

Proposition 1 The lack of quality control procedures can result in the local authority not being able to determine market value for all properties reliably.

Proposition 2 Valuers do not apply their independent judgment in the case of petrol filling stations.

Proposition 3 Oil companies are uncooperative in the valuation process and may influence the values.

5.4 Research and conclusion response to Proposition 1

5.4.1 Overview of research

The value of the property must be ascertained by the local authorities who are responsible for ensuring fair and equitable valuation methods in terms of the MPRA. Should the valuation process, and hence the local authority's input through the municipal valuer not be conducted in a way such that fair market values will be achieved, this will have a direct influence on all the valuations, including those of petrol filling stations.

Quality control is a major ingredient for effectively establishing the market value of the property. It is essential that this control be properly supervised from the time of commencement of preparation of the general valuation process. In order for the market valuations emanating out of a general valuation to be correctly ascertained, through the use of mass appraisal techniques that are applied, the founding or source documentation needs to be correct. It is this data upon which the municipal valuer relies when using computer-assisted techniques, e.g. multiple regression models to determine values for residential and commercial properties. Where this is deficient, incorrect valuation results are likely to be achieved that will lead to wasted costs, as objections by the objector (property owner, *etc.*) will follow. This will also influence the outcome of the valuation roll.

However, the control is not only limited to the residential and commercial sectors, but includes special purpose properties. When performing the GV 2006 external

valuers were employed to conduct the valuations for petrol filling stations. What emanated from this process was clearly the lack of reliable data and poor quality control that prevailed throughout the process.

The Profits Method of valuation is clearly the method of choice for undertaking the municipal valuations. Therefore, financial data for petrol filling stations needs to be provided by the oil company or the operator, as this information will drive the valuation. The information needs to be accurate and properly scrutinised. In a petrol filling station, poor management of the site is an important valuation attribute as it will impact directly on the profits and hence the throughput will be understated. If the local authority allows this not to be properly investigated, the ultimate market valuations will be incorrect. In a mass valuation situation, this can have an impact on many valuations and if the properties were to be under-valued, the oil company would be unlikely to object.

5.4.2 Conclusion to Proposition 1

The findings in response to Proposition 1 are that the local authority's actions can affect the outcome of a valuation roll negatively especially with the lack of quality control where it is indicative that the properties are not being valued at market value. As the Throughput Method is used in the determination of the market value, quality control of the valuation attributes is vital to achieve this in terms of the MPRA, so as to ensure a just and equitable valuation roll.

The proposition is therefore accepted.

5.5 Research and conclusion response to Proposition 2

5.5.1 Overview of research

Research was required to address the proposition that valuers do not apply their independent judgment in the case of petrol filling stations.

The role of the local authority was explored through the empirical evidence obtained from the survey. There was no literature that specifically addressed the role of the local authority or its ability to interfere with the process and undermine

or compromise the valuer. Despite this, the interpretation from the findings was that, while the local authority guides the process, indications were that the majority of valuers were given discretion.

In the case of petrol filling stations, the valuations are mostly not objected to, with the result that the accuracy of the valuation is seldom tested. The underlying factor will be the data upon which the valuer bases the valuation. To endeavour to value petrol filling stations on a mass basis, applying common valuation denominators and attributes, cannot support an open market valuation without proper research and reliable data. Common denominators would be the valuation factors that are commonly applied *en mass* to predict turnovers, rentals and returns, whereas the attributes would be factors that influence the value, e.g. underlying management, behind the forecourt facilities and location.

As soon as a valuer is instructed to follow a specific methodology, his or her freedom to value is removed from the process. However, in the Western Cape, the anomaly was that while the valuers were instructed to follow a specific methodology, the majority indicated that they were not compromised in so doing. It could thus be understood that generally, the methodology imposed, is typically performed for the type of property valued.

To overcome the problem of valuing petrol filling stations and to ensure that the valuer's independence remains unquestionable, he or she must perform stand-alone valuations. The process will require an inspection of the property and the obtaining of accurate information, which can be compared to market norms without the intervention by the local authority, will ensure independence is achieved. Although, this may be said to be difficult in a mass valuation process, with proper planning there is no reason why this cannot be achieved. The process should not be limited only to petrol filling station sites, but should include all special purpose properties, especially where the Profits Method is required. Local authorities will need to educate the politicians so that the approved budgetary commitments to the process can ensure that enough funding is allocated to allow for more stand-alone valuations of special purpose properties.

When this process is not done, one of two situations arises. Either the valuations are low and there are no objections, or the valuations are objected to and the municipal valuer is forced to dedicate staff to address the objections. This is wasteful expenditure which could have been avoided had more time been spent on the process. The problems pertaining to the valuation of petrol filling stations and any other specialised properties, e.g. hotels, cinemas, *etc.* are common.

5.5.2 Conclusion to Proposition 2

The conclusion, based upon the empirical evidence is that valuers do apply their own independent judgement in the case of petrol filling stations, although incorrect source data will not achieve market value.

The proposition is therefore accepted.

5.6 Research and conclusion response to Proposition 3

5.6.1 Overview of research

The literature review identified the likelihood of a poor response from oil companies. The valuers involved in the valuation process continually noted that information was not easily obtainable. From the research survey conducted for petrol filling stations, the majority of respondents concluded that they were only sometimes uncooperative.

In an attempt to obtain response from the major oil companies in a separate survey, not one such company was prepared to participate in the survey. The industry operates under a cloud of secrecy and the oil companies do not readily disclose their relationships with the operators. The oil companies were described as a cartel where the operators are merely branch managers. Throughout the operation of the industry the oil company controlled the process from the refinery to the final sale to the consumer.

5.6.2 Conclusion to Proposition 3

The oil companies were found to be uncooperative in the valuation process and this may influence the values. This was clearly evident from the literature review, the response to survey questions and the non-response to the independent survey by the oil companies.

The proposition is therefore not accepted.

5.7 Reflection on aims and objections of the research

In summary, the aim was to explore the intervention by local authorities in the valuation process, combined with the independent judgement of valuers and the non co-operation of oil companies during the process.

These aims concentrated on the investigation into circumstances that influenced the valuation of petrol filling stations in applying the MPRA and the shortcomings of the various role players as well as the influence they had on ensuring fair and accurate valuations. A second aim was to address the methodology and the determination of market value. The final aim evaluated the independence of the valuers.

The objective was to identify the shortcomings in the MPRA, with a view to making recommendations to the local authority in development and appropriate methodology for valuing petrol filling stations.

In reflecting on this research, the aim in ascertaining the effect on the various role players was achieved. The local authority was found to be reliant upon the data provided by data-collectors that influences the valuers, with marginal co-operation of the oil companies, who operate in a cartel. The need for diligent research in any property valuation needs to be performed and where this is not carried out, equity in the valuation process is not achieved.

The aim of ascertaining the methodology to value petrol filling stations was achieved both through the literature reviewed and the survey conducted where the

Profits Method was most often used. Although this research was in respect of the 2006 General Valuation, more local authorities have completed valuation rolls. It will become more evident that, when using this methodology, caution needs to be exercised in performing valuations based on throughput or turnover where the underlying values are dependent on the operators.

Clearly, when reflecting on the aim of evaluating the valuer's independence, this was achieved. The survey highlighted the fact that, when conducting valuations on petrol filling stations, valuers were not given discretion and the oil companies generally instructed the valuer on the methodology to be used.

Finally, the objectives were achieved, in that, through this research, recommendations could be made to the local authorities as noted below.

5.8 Recommendations

5.8.1 National legislation and practice guidelines

From the research conducted, there was a clear indication that the use of the Profits Method or Throughput Method for the valuation of petrol filling stations was clearly the process to follow for the forecourt, whereas the behind the court facilities must be based upon commercial value. In order to undertake this methodology there needs to be a stringent form of co-operation between the oil companies, operators and the local authority.

As noted from the literature review, while there was an excellent MPRA the legislation had failed to introduce generally recognised valuation practices, methods and standards. Although the South African Council for the Property Valuers Profession and the South African Institute of Valuers have endorsed the "International Valuation Standards" practices, these are not applied and South Africa still remains substantially behind other countries with regards to the implementation of standards and the use thereof.

The IVSC standards do not address the process to be followed when undertaking municipal valuations, but they do make brief reference to the “assessed or rateable, or taxable value” and refer valuers to the applicable laws that will relate to the assessment, rating and/or taxation of property in terms of the prevailing laws. The standards are specific that the assessed or rateable, or taxable value cannot be considered to comply with market value as contained in those standards.

The absence of guidelines or national guidelines will not help to ensure justice and equity in the valuation process. While valuers follow international guidelines for computer mass appraisal, the statistical multiple regression formula used is not subject to any regulation.

As the CAMA valuation technique is often performed by a statistician who may lack adequate valuation training, only registered professional valuers who have a specialised knowledge of CAMA, should be appointed. The SACPVP should pursue, together with the Department of Local Government, standard guidelines for automated valuation models.

National guidelines need to be published by the Minister in order to ensure uniformity in any of the municipal valuation processes carried out by the local authorities. It therefore follows that, unless this is addressed, there surely cannot be a just and equitable national rates base.

5.8.2 Provision of financial and other valuation data

Through the valuation process, whether for residential or specialised property, the lack of quality control will influence values. These controls are fundamental to the entire process and, where expertise is lacking, it should be sought. It is also imperative that in exercising control of the process, the valuer needs to be in possession of reliable and accurate data. This can only be obtained in the oil industry through the compulsory provision of information. The current legislation does not sufficiently penalise the property owners who fail to provide information.

The oil companies are certainly not co-operative in the process, yet the properties owned by them are an extremely valuable asset on which sufficient rates and taxes may or may not be paid. Thus, the Profits Method becomes open to manipulation as its value inputting factors are clearly not open and transparent in the process. It is therefore of utmost importance that the operators also become responsible for the provision of data. Clearly, the oil companies, by not co-operating in a process, will influence the value of petrol filling stations.

Unfortunately more often than not, if the property is undervalued, the oil company would not challenge a valuation and thus the only time accurate information could be obtained would be through an objection process.

Certainly, the compulsory supply of information and regulated guidelines would ensure a just and equitable process. These valuations, like other specialised properties should ideally be performed on an individual basis where a proper due diligence can be carried out to achieve a market value.

5.8.3 Quality control and data-collectors

With improved quality control, reliable source data, adequate resources and expertise, together with suitable guidelines, a just and equitable valuation roll should be produced.

Quality control is four-fold and would best be achieved by: -

- a) The appointment of an educated project manager, familiar with the local market, to oversee the General Valuation;
- b) The use of valuers to selectively review the data field forms and at the same time comment on the valuations that had been undertaken
- c) Quality control post the objection period;
- d) Maintenance of the property data system in preparation of the next general valuation.

The most probable solutions to quality control are that data-collectors may well be suited for areas where there is much uniformity, e.g.

- i. Selected suburban residential areas
- ii. The Cape Flats;
- iii. Existing townships;
- iv. Informal housing areas;

Collectors lacked property or valuation knowledge, especially in the wealthier, diverse upmarket and suburban areas, in that they did not have the ability to judge essential property criteria.

In order to address these shortcomings, the recommendations are:-

- a) Data-collectors must be more formally trained in the basics of property and valuation attributes. The objective herein would be to register various training modules that a Data Collector should pass. The modules can be registered with the educational authorities and unit standards assigned thereto.
- b) The SACPVP should consider the registration of data-collectors and encourage them to pursue a profession in property valuation. This will also allow data-collectors, who are qualified, to assist other municipalities with their valuation rolls.

Following the objection period leading up to the provision of reasons for the municipal valuer's decision, a second period of quality control should be implemented by a team of specialists. This can assist in ensuring that errors are monitored as well as the correct data and sales information.

Once the valuation team has completed the valuation roll, data-collectors should then assume the role of participating in the maintenance of the valuation roll for the next general valuation. This will ensure that more accurate data is available with good quality control. This can include: -

- i. Monitoring of sales and updating records;
- ii. Inspecting show-houses and apartments in the residential market;
- iii. Collecting commercial and other sales data;
- iv. Attending public auctions;
- v. Liaising with valuers and brokers.

Without good quality control, problems would most likely be encountered.

Candidate Valuers should have been used in the initial data collection process, as they would have possessed a higher knowledge of valuations as opposed to the mere "data collector".

5.8.4 Market value versus municipal or rateable value

Much concern has been raised as to whether market value is in fact being sought or rateable value (municipal market value).

The legislature must consider that impact on the term "market value" which must be replaced with "municipal market value". The "municipal market value" could be defined as the "most probable price" as opposed to the direct selling price or willing and able buyers and sellers that flows from the market value determination. The change in market value terminology has been directly referred to in the recommendations previously suggested by IPTI, which have not been implemented. This change in the definition could improve the understanding of the market value intended to be achieved in terms of the MPRA.

5.8.5 Reasons supplied by the municipal valuer

Attention also needs to be given to the quality of reasons supplied by the municipal valuer in terms of section 53 (2) of the MPRA. Often the reasons supplied by the municipal valuer are insufficient to prepare an objective appeal. In terms of the Promotion of Administrative Justice Act 3 of 2000 (RSA, 2000b), MPRA, as well as the decisions of the Courts there is an obligation to give reasons for a finding that is subject to a right of appeal (Getz, 2009). The principles are

clear that there is a duty (including under the MPRA) on the municipal valuer to provide adequate written reasons for the decision taken by it.

Reasons must relate to the specific circumstances of the property considered. The reasons provided in terms of Section 52 of the MPRA, in response to the objectors' request, often do not disclose reasons considered at the time the valuation process took place (including the effective date of such process) or the information on which the decision was based at the relevant time. If no reasons, or insufficient or invalid reasons, are given, it is often impossible (and this is one of the material purposes of the obligation to furnish reasons) for a valuer to be aware of the reasoning process or the information upon which the decision was based. More importantly, the valuer must be able to address and challenge the rationality of the decision on appeal. Part of an appeal process is to determine whether the reasoning process of the original decision-maker is sound in principle.

5.8.6 Valuer General's Office

A separate research study could be undertaken to expand the standards to comply with the South African economy and the need to incorporate reference to Municipal Rating. Public confidence needs to be restored and the need for the establishment of a Valuer General's Office should be explored. These are independent bodies that appear to operate satisfactorily in other countries like Australia and the United Kingdom.

5.9 Reflection on experience gained from the research

While the research question in itself posed problems, it was soon learnt that there was a lack of peer-reviewed papers, which brought about its own challenges. This resulted in having to review literature from other countries and preparing secondary sources as a proxy to support the literature, which was at times very demanding, but intellectually stimulating.

The non-cooperation of the oil companies in the survey, which could have influenced the outcome of the research, was disappointing. The extent to which the oil companies may impose the valuation methodology and fail to provide

suitable reliable information when municipal valuations are conducted needs to be further addressed through legislation.

Through this process there was opportunity to hold discussions with the Department of Land Restitution and Land Reform (DLRLR), the Department of Local Government and the Cape Town local authority, with the following outcomes.

(i) Department of Local Government - Auditing of valuation rolls

The Government has realised the importance of auditing valuation rolls and this is likely to improve over the short-term, especially with the threat of establishing an office of the Valuer General.

Auditing could conceivably become an extended function of the Auditor General. Currently, the Cape Town valuation roll is audited by IPTI, but the use of local expertise instead can be investigated.

The DLRLR initiatives as contained in the Green Paper on Land Reform, 2011. This raises the need for the office of a Valuer General and is still under discussion. However, this could provide a resolution to the auditing and monitoring function of the future general valuation rolls.

(ii) Education systems and bursaries

The Local Government SETA (LGSETA) is now facilitating education for property valuers at municipal level. The LGSETA provides financial assistance to valuers who intend entering the profession or furthering their studies, through the establishment of an educational bursary fund which has been established and is being administered by the. The LGSETA is engaging with the Department of Local Government to appoint a committee to pursue the preparation of educational unit standards for municipal valuers (Registrar of the SACPV, personal communication). Unfortunately, various obstacles, e.g. funding, management and

changes in educational qualifications standards, need to be addressed before this process can be completed.

The SACPVP is also diligently reviewing valuation standards and the Identification of Work for Property Valuers is in the process of being gazetted by the Council for the Built Environment. Simultaneously, it has been proposed by the SACPVP that, from 2014, it will be compulsory to have an accredited degree in property valuation to be eligible to register as a professional valuer.

Perhaps one of the most immediate advancement is that, after some years of consultation between the RICS and SACPVP, the RICS has resolved to admit registered valuers with more than 10 years experience as members, subject to various criteria which will be provided upon application. This, in itself, is an advancement and an acknowledgment of the high standard that the valuation diploma has held in the international valuation profession. In addition, the accredited courses at the tertiary institutions continue to gain recognition.

5.10 Topics for further research

The following topics have been identified for further research.

5.10.1 Training and research

Further research into the valuation profession in South Africa needs to be conducted as well as the recommended training for data-collectors. Over time, the production of valuation rolls will improve, but some of the underlying problems may remain.

5.10.2 Legislation review

A review of the legislation needs to be undertaken, especially in the definition of market value and rateable value. Where the MPRA instructs the valuer to ignore unregistered leases, the effect of registered leases on property values needs to be addressed.

5.10.3 Critical review of the MPRA and the valuation process

Similar research to that which has been undertaken should again be undertaken possibly concentrating on the major metropolitan areas or authorities. Most of these local authorities have now completed their valuation rolls and a comparative study would be of interest.

5.10.4 Market research

While residential research through CAMA is likely to improve over the years through training of data-collectors, research into the success or failure of CAMA in relation to non-residential properties should be conducted.

5.10.5 Valuer General

The establishment of an office of a Valuer General who will oversee municipal valuations needs to be researched. This research will include the role and functions of this office.

The above research will assist in obtaining a better understanding of the MPRA and the outcomes of the valuation roll bearing in mind that the success or failure should not be measured purely on the objections lodged.

GLOSSARY

Behind the Pumps	See “Facilities”
Dealer	The party operating the retail sales business on the site;
Driveway	See “forecourt”
Facilities	All developments and premises on the site other than the forecourt and the forecourt improvements
Filling station	A term generally used to describe a public garage without a vehicle maintenance facility
Forecourt	That portion of the site used specifically for the sale of fuel and the associated vehicle movement.
Forecourt Improvements	Those improvements used in connection with the fuelling of motor vehicles.
Gas Station	Petrol filling station
Head lease	A lease between the owner and the oil company Government taxes and levies Customs and Excise Duties, Fuel Levy, Equalisation Fund Levy, Road Accident Fund Levy, Illuminating Paraffin Marker Levy.
Interception Rate	The proportion of passing traffic using the site for refuelling.
IPTI	International Property Tax Institute
Manufacturing	Any petroleum fuel and any lubricant, whether used or unused, and includes any other substance which may be used for a purpose for which petroleum fuel or any lubricant may be used.
MPRA	Municipal Property Rates Act No. 6 of 2004
Oil company	The supplier of refined products to the dealer.
Operator	See “Dealer”.
Outgoings	Proportion of the gross rental paid out in property expenses viz. rates, repairs, etc.
Petrol	Petrol is a form of fuel used in spark ignition or internal-combustion engines for motor vehicles. Two types of petrol can be distinguished; leaded and unleaded.
Public Garage	Property used for the sale of motor fuel, the maintenance of vehicles and associated uses. This may include other retail facilities.
QSR	Quick service restaurant
RPPR	Residential Property Price Ranger http://www.rppr.co.za/home2.asp
RATPLAN	Service Station Rationalisation Plan
Retail Margin	The margin available to the dealer, being the difference between the price paid to the oil company for fuel and the pump price (<i>i.e.</i>

	dealer's gross profit on fuel)
SACPVP	South African Council for the Property Valuers Profession
Service Station	A general term for the public garages and the filling stations
Site	The garage property (not restricted to vacant land in oil parlance)
Throughput	The pumping level of the petrol filling station expressed in kilolitres
Tied Lease	The lease between the oil company and the dealer
Wholesale Margin	The element of gross profit allowed to the oil company by law for the operating of its business of importing refining and distribution oil products. The margin is expressed in Cents per litre and is set by an annual oil industry profitability review and subject to the approval of Minister
YP	Years purchase. The factor for capitalising income.
Zone Differentials:	Cents per litre costs of moving fuels from coastal ports/refinery locations to inland distribution centres, by pipeline, rail or road. These are determined by individual Magisterial Districts and calculated by the oil industry, subject also to ministerial approval for inclusion in oil company wholesale price structures)

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APPENDIX

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APPENDIX A

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INTRODUCTION

We set out below certain key issues that need to be addressed by municipalities embarking on the compilation of a valuation roll and supplementary valuation rolls in terms of the Local Government: Municipal Property Rates Act, 2004 (Act No.6 of 2004), hereinafter referred to as the "Act".

Section A relates to processes that a municipality should follow in initiating the valuation process, whilst **Section B** relates to certain more important issues that the municipal Valuer needs to address in the valuation process of the Act.

Department of Provincial and Local Government have compiled a comprehensive guideline relating to the specifications for the procurement of private Valuers.

The guideline specifications for the procurement of Private Valuer's document should be carefully considered by the various municipalities requiring the services of private Valuers.

However, municipalities may well have to make changes or adjustments to this document to cater for their specific and/or unique needs.

SECTION A: PRE-VALUATION REQUIREMENTS

Prior to engaging a municipal Valuer and/or an assistant municipal Valuer, municipalities should ensure that the following criteria have been met by them.

1. CRITICAL DATA

Where a municipality does not have a valuation roll, they will have to ascertain the following:

1.1 A Land Audit of all property falling within their demarcated area.

1.2 Obtain a copy of the municipal boundaries as verified by the Demarcation Board.

1.3 In such cases the municipality may undertake this function themselves or else require that this function forms part of the valuation process.

1.4 Where a municipality does have a valuation roll, it should undertake a complete land audit verifying all properties within its demarcated boundaries, compare the valuation roll with the latest deeds download of the municipality, reconcile all cadastre data with the valuation roll and a spatial representation of the valuation roll to assist in the matching and reconciling of data be undertaken.

Where the municipality is unable to perform these functions, they should require that it form part of the valuation tender. The following is a basic summary of the information that is required before a valuation roll can be compiled:

- A schedule of all Sectional Title Schemes within the municipality together with their sizes, participation quotas and registered owners;
- Ownership details of all properties, including part owners;
- Purchase Price;
- Date of Purchase;
- Registration Date;
- History of owners and transactions (where available);
- Endorsements (i.e. registered leases, servitudes etc);
- 21 digit code as implemented by the Surveyor General;
- Hard copy of all general plans, sub-division diagrams depicting all properties within the municipality;
- Town Planning Zoning;
- Postal addresses wherever possible;

Sources could include:-

Eskom, agricultural unions, post offices, Telkom & from rates clearance certificates.

Where the municipality has no valuation system of its own, it must ensure that the valuation system to be used by the municipal and/or assistant municipal Valuer will adequately cater for all the valuation and other requirements set out in the Act.

In particular, the system must be capable of storing and retrieving data to enable both the Valuer and the municipality to comply with the Promotion of Access to Information Act, Act 2 of 2000.

2. RATES POLICY

Before the valuation process can be finalised it will be necessary for the municipality to have drafted its rates policy with specific reference to the categories of properties it has defined in terms of the Act.

These categories will be used by the Valuer in the compilation of valuation roll in terms of the Act.

3. BILLING SYSTEM

It is critical for the municipality to ensure that the valuation system used by the Valuer is compatible with the billing system of the municipality.

The municipality should ensure that this condition is fulfilled well before the rates accounts are prepared.

4. PROPERTY INSPECTIONS

Section 45(2)(a) of the Act states that inspection of properties is optional. In general, in the absence of high quality aerial photographs being used from which electronic measurements can be obtained, it is doubtful whether inspections of properties can be avoided.

Municipalities must ensure that notwithstanding this provision, correct and accurate data of each and every property is obtained and verified by the Valuer.

The market value of the immovable property (land and buildings) is the amount the property would have realised if sold in the open market by a willing seller to a willing buyer.

If the municipal Valuer is unable to fully verify and substantiate what is erected on the property, municipalities will sustain revenue losses resulting from reductions made by the city Valuer during the objection process as well as further reductions made by the valuation appeal board.

5. PUBLIC AWARENESS

Municipalities are encouraged to involve and educate the community in the valuation process.

The Rates Policy specifically calls for public participation. It is important that the following persons be enlightened in regards to the valuation process:

- Councillors and municipal officials;
- Ratepayers;
- Agricultural unions and farming associations;
- Ratepayer associations;
- Business associations;
- Civic associations.

It is suggested that the municipality as part of its tender conditions require the Valuer to implement a programme of public awareness.

This could include:-

- Call centres
- Attendance by the Valuer to ward committee meeting

4

- Brochures
- Workshops
- Radio and television interviews

SECTION B: VALUATION PROCESS

1. DEEDS DATA

This data can be obtained from the Registrar of Deeds relating to properties within the jurisdiction of the municipality.

The municipality may contact Office of the Chief Registrar of Deeds: Registration and Support Systems, with regard to data that can assist with the compilation of the valuation roll at this telephone number: (012) 338 7000, or at this postal address: Private Bag X918, Pretoria, 0001.

Deeds Web is a web-based interface to the Deeds Registration System (DRS) database which allows its registered users to search for deeds registration information via the Internet. The website of the Registrar of deeds is www.deeds.gov.za. Information with regard to registration, tariffs (presently in 2005 the data is available at 50 cent per property), etc. can be found on the said website.

2. GENERAL DATA

The collection of data is crucial and vital in the process of compiling market related municipal valuations.

Municipalities must ensure that a database is developed that can be incrementally added or built upon in perpetuity. All data belongs to the municipality and the must ensure that such data is adequately protected. The Valuer may choose to use a mass valuation system especially with regard to residential properties.

It may not be economically viable to use such a system in the smaller towns and in such cases the more traditional mass valuation approaches will have to be followed. Irrespective of how the data is collected or how the properties are inspected, all data must be accurate, capable of verification and able to withstand scrutiny at the valuation appeal board hearing.

The municipality must understand that the development of an accurate and dependable database may take several valuation cycles to achieve.

What is important is the requirement by municipalities that all data obtained by the Valuer and/or data collector is collected in a format that can easily be added to the database.

Municipalities should ensure that the database is fully maintained and updated during the period and duration of the valuation and supplementary valuation rolls.

3. GENERAL MARKET REPORTS

The municipality should as part of its tender specifications require that the Valuer set out in full the basis of the various valuation calculations and valuation compilations.

The following are examples of typical reports that should be made available to either the municipality or the monitors as referred to in the Act:-

- Central business district – growth, trends and basis of valuation within specific nodes;
- Specific industrial nodes;
- Residential categories;
- Specialised buildings;
- Rentals, vacancies, expenses, capitalisation rates, construction costs etc.
- Sales information and data relating to different zonings etc.

4. SPECIALISED PROPERTIES

Municipalities generally have a spread of properties unique to their area. Certain municipalities may have properties of a highly specialised nature that will require special valuation skills. Municipalities must ensure that private Valuers appointed by them have the necessary skills, expertise and knowledge to compile valuations of this nature.

Examples could include, mining, forestry, substantial public infrastructure such as major harbours, airports etc.

In these cases, municipalities must satisfy themselves that they have clearly identified these properties in their tender requirements and that the Valuer has the necessary expertise or professional assistance to draw upon in the compilation of these highly specialised properties. In the case of mining land, municipalities and Valuers must have a clear understanding of the definition of a “mine” and “mineral” as defined in the Act.

Valuers must clearly understand what constitutes equipment and what is deemed to be buildings or improvements with regard to such land and the resultant implication on value.

In the case where the freehold owner of land is not the mining title holder, it is essential that both the municipality and the municipal Valuer fully understand that the freehold is encumbered by the mining title and that the value of the freehold in such circumstances is a residual land value.

APPENDIX B

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APPENDIX B

The City of Cape Town issued the following guideline to the "contractors" being Valuers appointed to undertake the valuation of petrol filling stations for the GV 2006:-

"11. Petrol filling stations

The following are guidelines only and are not prescriptive, but suggest all Contractors follow the same methodology.

In the field try to obtain current throughput of petrol and diesel sales.

Value the station in sections:-

Forecourt. Includes pumps, circulation areas and facilities ancillary to operations, i.e. attendant's room, office (if applicable) and toilets.

Back of pump facilities. This could include the shop(s), lube bays, workshops, showrooms, etc

Excess land used for a specific purpose such as sale of second hand cars.

Forecourt

Rental paid will be dependent on throughput, and is based on the percentage of the dealers prescribed margin. As at 01/01/2000 the margin was:

24.5 cents per litre of petrol

24 cents per litre of diesel

The percentage to be applied varies from 10% to 20% according to the category of the station thus:-

Throughput litres	Category	Percentage
<80,000	Very Poor	10%
80,000 – 150,000	Poor	15%

150,000 – 200,000	Average	18%
250,000 – 350,000	Good	20%
>350,000	Prime	20%

Example: Station pumping 200,000 litres of petrol:

$$200,000 \times 24,5 \text{ cents} \times 18\% = \text{R } 8\,820 \text{ per month}$$

Behind forecourt facilities

- (i) Prime shops – you are valuing as a shell and for brand names such as Starmarts, Kwikshops and restaurants such as Wimpy's, Whistlestops, assume installed air conditioning, ceramic floor tiles, recessed light fighting and full shop fronts.

Rentals 80m² – 125m² module will probably be of the order of R50.00/ m² to R65.00/ m². Reduce rate for larger units.

- (ii) Non-branded shops. Usually located on poor sites rental could be in the range of R25.00/m² - R 35.00/m²
- (iii) Workshop space. Emphasis now on retail not on motor related facilities – so will be located on the older stations. Unlikely to support a rental of more than R15.00. m².
- (iv) Fitment centres/showrooms. Will depend on location / exposure, but could be in the R25.00/m² - R 30.00/m² range.
- (v) Atm's. Average rental about R 1,200 per month.

Excess Land

Average size of a service station is around 2500 m². If significant area of land in addition – and could be subdivided – then value separately. A hardened surface used for car sales could be worth R4.00/m² - R 5.00/m² per month in some areas

Expenses

Above are gross rates from which should be deducted expenses i.e. rates, insurance and maintenance. Suggest you include 1% management charge.

Cap rates

Generally fall in the range 12% - 18%.

For good and prime sites use around 12% and for average site, but with good retail potential, a similar rate could apply. Otherwise for average sites around 15% and for poor sites 18%+

Land Values

Sites unlikely to be purchases if potential throughput less than 250,000 litres per month. This would be an average site and the price would be around R 1 000 000 (2500 m²), R400/ m²) on R4.00/litre. The range is generally between R 3.60 and R 4,50 per litre. Good sites with good potential value could fetch say R5.00 per litre – thus 350,000 @ R5.00 equates to R1.8million." (City of Cape Town Guidelines for GV 2000).

APPENDIX C

University of Cape Town

Approved for Publication 20.09.07 (R2)



COMMERCIAL PROPERTIES COMMITTEE

Practice Note 22

REVALUATION 2005

Valuation of Petrol Filling Stations

1. GENERAL

The following recommendation results from the agreements reached in discussions between the Valuation Office Agency, The Scottish Assessors' Association, agents for the UK Petroleum Industry Association, and the Petrol Retailers Association.

2. BASIS OF VALUATION

The method of valuation is the comparative principle based on open market rents at or about the tone date. The main elements are :-

1. Petrol sales forecourt
2. Forecourt shop
3. Car wash (where applicable)
4. Non-forecourt buildings (e.g. workshops, showrooms etc.)
5. Bunkered Fuel

2.1 The Petrol Sales Forecourt

2.1.1 Valuation of the Petrol Sales Forecourt

The value of the petrol sales forecourt will be determined in accordance with a nationally applied scale relating rental value to the throughput of motor fuel. For this purpose it is proposed that all grades of fuel are aggregated without adjustment for different types and grades of fuel, the profit margins on all grades being approximately equal.

The forecourt value will include the value of:

- (i) The developed forecourt, (excluding non-rateable plant items).

- (ii) Canopies.
- (iii) Rateable tanks.

2.1.2 Adjustments to the actual throughput may be required to arrive at the maintainable throughput.

The maintainable throughput is the throughput the site might reasonably be expected to generate if it adopted normal opening hours (up to 16 hours) and sold the fuel at the U.K average price per litre. Adjustments outwith the average price should be made in accordance with the table on page 9. The 'tone' year of throughput is the calendar year 2002. The U.K average price per litre for unleaded fuel is 73 - 74 pence per litre.

Adjustments may be required at this stage to arrive at the maintainable throughput for the following factors:

- (i) 24 hour opening
- (ii) Customer credit accounts, in excess of 5%
- (iii) Pricing policy

Further details are given in Appendix 1.

The maintainable throughput should be valued in accordance with the throughput scale on pages 9-10 with straight line interpolation between the fixed points.

2.1.3 Adjustment to the forecourt value may be required for the following:

- (i) Agency sales in excess of 5% of total volume

No adjustment should be made for credit card sales.

2.2 The Forecourt Shop

The value generated by the scheme will apply to the majority of forecourt shops and will include their ancillary offices and stores. The basis of the value is turnover and hence the scheme will be able to readily accommodate not only those sites where the custom is primarily motorist generated, but also the increasing number of sites trading as a destination shopping venue, under the banner of "convenience".

2.2.1 High Turnover Shops

In situations where the shop turnover generated is higher than expected from a station achieving a certain level of throughput, an adjustment is required to reflect that the turnover is abnormal for that throughput level. The normal relationship of shop turnover to passing throughput was established after a full

analysis of all the available information. It will be referred to as Core Turnover and was determined at the following levels.

Throughput Level	Normal %age of Total Adjusted Turnover to Total Adjusted Throughput (Core Turnover)
Up to 5m litres	Up to 20%
5 – 6m	Up to 19%
6 – 7m	Up to 18%
7 – 8m	Up to 17%
8 – 9m	Up to 16%
Above 9 m	Up to 15%

2.2.2 Shop Valuation

- a) Where the Total Adjusted Turnover of the shop expressed as a percentage of the Total Adjusted Throughput is less than or equal to the percentages detailed in the table above, for the various bands of throughput, the shop should be valued by applying the percentage as indicated in the table below or in Appendix 2.
- b) Where the Total Adjusted Turnover of the shop expressed as a percentage of the Total Adjusted Throughput is above the percentages detailed in the above table for the various bands of throughput, the shop should be valued as follows:
 - i) Value the Core Turnover as determined by the percentage in the table above in accordance with the percentage for the whole shop turnover as indicated in the table below or in Appendix 2.
 - ii) The remainder of the turnover should be valued at 2% below the previously determined %age (applied in (i) above) to reflect that this excess turnover is being generated from non motorist trade and is above the normal turnover expected of a station with that level of throughput.

However, the percentage for this portion of the turnover should be a minimum of 2%.

Turnover	%age
Up to £100,000	2%
£600,000	4%
£1,000,000 and above	5%

Values have been based on straight-line interpolation of the %age between the turnover thresholds. For the purpose of the valuation scheme turnover has been banded in £25,000 tranches, as shown in the table included in Appendix 2

The foregoing applies to shops up to 75 square metres ITSA (In terms of Sales Area). To reflect the increased cost of operating larger shops, the rental bid percentage is discounted by up to a maximum of 10% at 275 square metres ITSA. The adjustment for shop size is interpolated between 75 and 275 square metres on a straight line basis.

The shop area is adjusted to ITSA as shown below.

The area of the shop and ancillaries (ITSA) is first calculated by applying the following factors:

- (a) Shop area (including tills) at 100%
- (b) Ancillary offices at 80%
- (c) Ancillary stores (excluding external bin stores) at 50%

The value of the following items will be reflected in the values applied to the forecourt and shop and will not be the subject of any addition:

- (a) Toilets and related facilities, kitchens, staff rooms and passages.
- (b) Meter cupboard
- (c) Circulation space for vehicles sufficient for the purposes of the petrol forecourt, car wash and shop.

There may also be instances where a station has a shop which is inappropriately large, for historic reasons, but only sells the usual range of forecourt shop goods and where there is no significant demand other than from the motorist. In such cases the shop value will be determined by the turnover and no further adjustment is necessary.

In the absence of turnover information, the valuer should estimate the turnover based on forecourt throughput as an indicator.

In determining the maintainable shop turnover, it has been agreed that monies received from utility/rent/council tax payments, commonly through Paypoint/Payzone facilities, should be excluded. These transactions yield a very low commission level, understood to be less than 1%, and are employed essentially as " footfall generator" to increase other shop sales rather than as a valuable income stream in itself.

Further, it has been agreed that national lottery sales should be taken at 25% of the full transaction value to reflect the relatively low commission received

compared with the average level of gross profitability achieved on general shop sales. In a typical forecourt shop the average lottery sales will be in the order of £80,000. Where actual Lottery figures are available, these should be taken at 25% of the full transaction value, however, where lottery sales are not available it is recommended that £60,000 (£80,000 less 25%) be deducted from the income of the forecourt shop before the value is calculated. Catalyst have provided the information on those who participate in the national lottery.

Kiosks which do no more than take the money for petrol sales will be taken to be included in the forecourt value.

2.3 Car Washes

Eight classes of car wash are identified and shown on Appendix 3. The value of the car wash should be determined by taking into account both description and turnover.

2.4 Other Buildings

The values of buildings other than the forecourt shop and its ancillary office and store will be determined on the basis of local evidence/tone and are outside the scope of any national scheme of valuation.

2.5 Bunkered Fuel Attached to a P.F.S.

This is to be valued independently from the retail fuel sales. Bunkered fuel should be valued in accordance with Appendix 4 and added to the final Net Annual Value of the Filling station.

**ADJUSTMENTS TO ACTUAL THROUGHPUTS TO
ARRIVE AT THE MAINTAINABLE VOLUME**

3.0 GENERAL

Because of the complexities of the petrol filling station market, it is important to have a clear understanding of the operating practice of all the sites within a given locality.

Valuers should consider all available evidence of throughputs, pricing policies and be aware of all material changes which may have affected a particular site and the date the material changes occurred.

The starting point of the valuation is to establish a maintainable throughput which will determine the value to be attributed to the forecourt and will also assist in setting the level of the value for the forecourt shop (in the absence of turnover information.) The maintainable throughput is also crucial for the adjustments to be made for such factors as credit customers and agency cards.

The maintainable throughput is the volume of fuel a site could reasonably be expected to sell¹ during normal daytime opening hours during the calendar year 2002 on the basis that it was retailing the fuel at the UK average price (Unleaded fuel price), and with no more than 5% of trade coming from customer credit accounts. It also assumes the other competition in the locality is pricing on a similar basis irrespective of their actual market position. Sites selling at 1 pence per litre more than that price may require adjustment, however all maintainable volumes must be justified by comparison in the locality.

Small variations in the maintainable throughput can have a major impact on the final rateable value because the throughput is valued on a sliding scale. Great care is therefore required to ensure the maintainable throughput is correctly identified. Information from Catalist has been obtained to allow the valuer to compare the filling station to be valued with the UK average price. The information has been accepted by agents representing the major petrol companies as being reliable. Promotions should not be included in any pricing consideration.

¹ Maintainable throughput should therefore exclude bunkered fuel and fuel retained for the occupier's own use.

In some areas of the country there will be stations that were not pricing competitively in 2002. These are likely to be situated either on a major trunk road system, or in an area unaffected by hypermarket competition. It is not uncommon for fuel sold on the major trunk roads to be priced several pence above the competitive level in neighbouring urban areas. In such cases the stations may be sacrificing volume for enhanced margin, therefore the rate per thousand litres should be enhanced in accordance with the scale on page 8. It may also be that the location on the trunk road system will add to the inherent value by allowing the possibility of retailing with increased profitability. This will be reflected in the turnover for the shop. Similarly in areas unaffected by hypermarket competition, it is not uncommon for prices to be generally several pence above the prices charged in areas where hypermarket competition exists. Clearly an across the board alteration in pump price is unlikely to significantly affect the volumes traded at individual sites, nevertheless an attempt should be made to reflect the increased profitability of the fuel sold in such locations. In either case there can be no hard and fast rule as to how any such additional value should be identified.

The 2002 throughput of all fuels sold should be the starting point in determining the maintainable throughput but adjustments may be required where a material change of circumstances has taken place and its impact is not fully reflected in the 2002 throughput. Adjustments may also be required if the 2002 throughput, or any other throughput that is being considered has been influenced by a low price or high price policy. Please note that fuels sold should not include any 'bunkered throughput'. Fuel sold should also exclude fuel used by the operator for their own use.

If there are no subsequent material changes to take into account and the site together with its competition was trading at or near the UK average price the 2002 throughput may be expected to be the maintainable throughput of the site. However, all adopted volumes from whichever source will need to be justified by comparison with competitor sites. In some cases an individual return may not have been made or there may be instances of new sites opening or a change of ownership/occupation. Under these circumstances, there is little alternative but to estimate having regard to any historic throughput information available for the site. Comparison with other sites in the locality may also be appropriate.

Where a site has been affected by a material change, commonly the opening of a hypermarket, other petrol filling station or road changes, valuers need to carefully consider all available throughput information. Having first established the correct assessment based on the 2002 volume, the recommended approach is to identify the effect of a material change by studying throughputs on a 'before and after' basis. Care should be taken to have regard to pricing information since following alterations a station may have adopted a different trading policy to that previously pursued. Where this is the case adjustments will need to be made to compare the 'before and after' volumes on the pricing basis which underpins the scheme. Once the impact has been established at the date of the material change, valuer's judgement must be exercised to determine what effect the material change

would have had at the valuation date reflecting any other matters which may have occurred in the meantime

3.1 24 HOUR OPENING

It is agreed that the maintainable throughput should be based on an average opening of 16 hours per day (usually between 7.00am and 11.00pm). Where the kiosk is manned 24 hours, a deduction of 10% of the total throughput should be made. For those sites open long hours, but not 24 hours, an adjustment of less than 10% should be made in accordance with the matrix below.

Hours	% Adjustment
16	0.00
17	1.25
18	2.50
19	3.75
20	5.00
21	6.25
22	7.50
23	8.75
24	10.00

3.2 CUSTOMER CREDIT ACCOUNTS

It is agreed that there will be occasions where adjustments of throughput will be required to arrive at the adjusted throughput where there are customer credit accounts.

No adjustment is required in respect of any throughput attributable to 'deposit' accounts, i.e. those where the account holder has paid an initial deposit. Throughput achieved on 'credit' accounts, i.e. those where the account holder has not paid an initial deposit, shall be adjusted as follows:-

Where credit account sales represent more than 5% of total throughput (net of bunkered fuel and fuel used by the occupier) an amount equal to 25% of credit account throughput should be deducted from total throughput, after adjustment of total throughput for long opening hours. No adjustment is required under this head where credit account sales represent 5% or less of total throughput.

3.3 SCALE TO BE APPLIED TO MAINTAINABLE THROUGHPUT.

3.3.1 General

The price per litre applied is now dependant on level of throughput and price. Price adjustment is now dependant on the relationship of the 2002 price for unleaded fuel at the subject to be valued and the average UK price of 73 - 74 pence per litre. This price has been determined by the use of Catalist information and information has been obtained for all main stations in Scotland.

3.3.2 Throughput 4m and over.

Where the maintainable throughput has been derived from an actual throughput achieved against unleaded pricing above or below the average band, adjustments to the £/000 litres should be made on the basis of £2.50/000 litres above and below the average price of 73.5p.

At 4m litres average pricing of 73-74p will result in a rate of £3.50/000 litres. At 72p the rate will fall to £1.00/000 litres and at 75p the rate will be £6.00/000 litres. Interpolation is required at prices between these rates. The scale is extended beyond 75p to 78p. The scheme makes no recommendation above this rate but leaves the decision to the valuer based on knowledge of the local market. Similarly below 71p there is no recommendation on the rate to be applied.

The Valuation scale to be applied to maintainable throughput is as follows:

Maintainable Throughput (000 litres)	£/000 litres (Within average price band of 73 –74pence per litre)
1,500	0
2,000	0 up to 25p above average price band max70p at 5p above average price band max.
2,500	£1.40
3,000	£2.10
3,500	£2.80
4,000	£3.50
10,000	£7.00
20,000	£10.00

3.3.3 Throughput under 4m litres

In recognition of the fact that at volumes below 4 million litres pricing above the average band does not necessarily translate immediately to additional value, it has been agreed that the upper end of the average price band range should be extended on a progressive basis, as volume reduces, as set out in the following table:

Maintainable Throughput (000)	Average Price Band Upper Threshold	Based on 2002 UL average of 73.5ppl (pence per litre)
1,500+	+1.75ppl	75.25ppl
2,000+	+1.5ppl	75.00ppl
2,500+	+1.25ppl	74.75ppl
3,000+	+1.0ppl	74.50ppl
3,500+	+ 0.75ppl	74.25ppl
4,000+	+ 0.5ppl	74.00ppl

3.4 LOW VOLUME STATIONS

It is recommended that below 1,500,000 Litres there should be no additional value attributed to the retailing of fuel from the forecourt. In addition, up to 4,000,000 Litres the values are very modest. No forecourt should have a nil value and if the valuer is satisfied that an adjustment to volume for enhanced margins is not required then a minimum value on the forecourt should take account of local site values and the forecourt value of other low volume filling stations in the area. In the absence of local evidence with regard to site values it is recommended that at normal pricing and even in some cases where enhanced prices are applied that the forecourt should be valued at a flat rate of £250. Appropriate additions should also be made for the shop, car wash, excess site and other buildings.

		Value (£)	
Turnover (£)		Area (ITSA unadjusted)	
From	To	Up to 75 sqm	275 sqm and over
	62,500	1,000	900
62,501	87,500	1,500	1,350
87,501	112,500	2,000	1,800
112,501	137,500	2,625	2,363
137,501	162,500	3,300	2,970
162,501	187,500	4,025	3,623
187,501	212,500	4,800	4,320
212,501	237,500	5,625	5,063
237,501	262,500	6,500	5,850
262,501	287,500	7,425	6,683
287,501	312,500	8,400	7,560
312,501	337,500	9,425	8,483
337,501	362,500	10,500	9,450
362,501	387,500	11,625	10,463
387,501	412,500	12,800	11,520
412,501	437,500	14,025	12,623
437,501	462,500	15,300	13,770
462,501	487,500	16,625	14,963
487,501	512,500	18,000	16,200
512,501	537,500	19,425	17,483
537,501	562,500	20,900	18,810
562,501	587,500	22,425	20,183
587,501	612,500	24,000	21,600
612,501	637,500	25,391	22,852
637,501	662,500	26,813	24,131
662,501	687,500	28,266	25,439
687,501	712,500	29,750	26,775
712,501	737,500	31,266	28,139
737,501	762,500	32,813	29,531
762,501	787,500	34,391	30,952
787,501	812,500	36,000	32,400
812,501	837,500	37,641	33,877
837,501	862,500	39,313	35,381
862,501	887,500	41,016	36,914
887,501	912,500	42,750	38,475
912,501	937,500	44,516	40,064
937,501	962,500	46,313	41,681
962,501	987,500	48,141	43,327
987,501	1,012,500	50,000	45,000

Car Washes

Appendix No 3

Classes (1)	Value (2)	Turnover (3)	Description (4)
A++	£7,500	Over £50,000	As A, but invariably modern multi programme, highest turnover sites.
A+	£6,000	Over £40,000	As A, but invariably modern multi programme, high turnover sites.
A	£5,000	Over £33,500	Well located car wash, probably a modern multi programme type, on a well laid out site with limited local competition. Good access and circulation within the site without obstruction to the petrol sales forecourt. Good demand from residential areas close-by.
A-	£4,000	Over £26,500	As for Class A above, but where there is an average amount of local competition.
B	£3,000	Over £20,000	Likely to be a multi programme type, but possibly not modern, on a well laid out site with good access and circulation. Situated close to residential areas but with heavy competition from other car washes in the vicinity.
C	£2,000	Over £13,500	Likely to be an older type of car wash offering only a limited range of wash facilities. Located in areas of relatively low demand or competition from more modern multi programme facilities. Would also include the modern multi programme Jet Wash type facility on a good site with limited competition.
D	£1,000	Over £6,500	Jet washes not included in class C.
E	£500	Under £6,500	Poorest Jet Washes

The valuation scale to be applied to throughput is set out below: -

Litres (000's)	£ per 000 litres	RV £
1,000	0.525	525
2,000	1.125	2,250
3,000	1.425	4,275
4,000	1.569	6,276
5,000	1.687	8,435
6,000	1.789	10,734
7,000	1.874	13,118
8,000	2.035	16,280
9,000	2.142	19,278

Prices £ per 000 litres should be interpolated between volume thresholds.

Generally the handling charge paid to the site operator for bunkered fuel has not altered significantly since 1998. The scheme values are therefore the same as those for the purposes of the 2000 revaluation.

APPENDIX D

University of Cape Town

ANNEXURE D

The composition of the fuel price is reflected in the table below.

Petrol levies, taxes and margins 95 Octane (unleaded petro												
2007 (RSA c/litre)	BFP	Fuel tax	Customs & excise	Equal- isation fund levy	Road accident fund	Trans- port cost	Pipe- line Levy	Whole- sale margin	Retail margin	Slate levy	Deli- very cost	DSML
JAN	319.413	116.00	4.00	0.00	36.500	13.700	0.00	39.487	46.900	5.00	7.00	10.00
FEB	296.413	116.00	4.00	0.00	36.500	13.700	0.00	39.487	46.900	5.00	7.00	10.00
MAR	319.313	116.00	4.00	0.00	36.500	13.700	0.190	39.487	48.00	4.810	7.00	10.00
APR	377.313	121.00	4.00	0.00	41.500	13.700	0.190	39.487	48.00	4.810	7.00	10.00
MAY	411.313	121.00	4.00	0.00	41.500	13.900	0.190	39.487	48.00	4.810	7.00	10.00
JUN												

The basic fuel price for petrol in 2008 was as follows:

In bond landed cost (IBLC/Basic Price)							
2008 RSA c/litre	Petrol 93 Unleaded	Petrol 95 Unleaded	Diesel 0.05% Sulphur	Diesel 0.005% sulphur	Illum Paraffin	Exchange Rate Rands/US\$	Average Dated Brent Crude
-	441.632	445.413	509.630	513.030	500.128	6.8433	90.37
-	458.632	462.413	516.630	520.30	502.128	6.9838	92.16
-	519.632	523.413	594.630	598.30	578.128	7.6645	94.74
-	575.632	578.413	711.630	717.030	696.128	7.9884	102.40
-	606.632	609.413	758.630	765.030	749.128	7.8446	108.37
-	651.632	654.413	829.630	835.030	820.128	7.6434	122.25
-	723.232	730.013	892.630	898.030	869.128	7.9352	131.54
-	682.632	692.413	870.630	875.030	867.128	7.6814	133.64
-	593.632	598.413	706.630	709.030	721.128	7.6845	113.00
-	564.032	570.813	650.630	654.030	656.128	8.0182	99.08
-	519.032	525.813	626.630	633.030	617.128	9.5901	75.33
-	358.032	364.813	545.630	553.030	542.128	10.1823	53.11

Archive for basic fuel prices

Source: Department of Mineral and Energy

[Available online from: http://www.energy.gov.za/files/petroleum_frame.html]

APPENDIX E

University of Cape Town

APPENDIX E

Pilot Survey - Valuation of Petrol Filling Stations

1. INTRODUCTION

[FirstName] - Allows up to 50 characters
[LastName] - Allows up to 50 characters
[Email] - Allows up to 255 characters
[CustomData] - Allows up to 500 characters

I am a Master degree student at the University of Cape Town and completing a research thesis.

The topic that I am researching is the valuation methodology used to value petrol filling stations and its relationship to Municipal Valuations. As part of the research that I am conducting, I have prepared a questionnaire which will enable me to answer the particular research question.

As a well respected and knowledgeable person in the valuation profession, I shall be pleased if you could kindly assist me with completing the survey. At this stage, little literature on the new Municipal Property Rates Act has been published and the oil companies as you know are often reluctant to provide information.

Your assistance is very important to my research and I shall be pleased if you could kindly respond to the answers in the questionnaire. Should you consider that the question posed is flawed or you do not understand, please feel free to comment thereon.

The questionnaire can be completed on line and will only take a few minutes to complete. Please click on the following link: http://www.surveymonkey.com/s.aspx?sm=ISfvJ_2fDzTURRV4EEtuukPQ_3d_3d

Thanking you for your co-operation.

All responses will be treated in the strictest confidence.

Jerry Margolius

email: margo@appraise.co.za

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Pilot Survey - Valuation of Petrol Filling Stations

[Exit this survey](#)**2. PARTICIPANTS INFORMATION**

The participant may select not to include his personal details

1. Please supply personal details (optional)?

1.1 Name:	<input type="text"/>
1.2 Company:	<input type="text"/>
1.3 Address 1:	<input type="text"/>
1.4 Address 2:	<input type="text"/>
1.5 City/Town:	<input type="text"/>
1.6 Province:	<input type="text"/>
1.7 Postal Code:	<input type="text"/>
1.8 Country:	<input type="text"/>
1.9 Email Address:	<input type="text"/>
1.10 Phone /Cell number:	<input type="text"/>

2. State nature of employment and position held?1.1 Government / Local
Authority

1.2 Private Sector

Other

Please state
- click on
category for
drop down
menu

<input type="text"/>	<input type="text"/>	<input type="text"/>
----------------------	----------------------	----------------------

Other (please specify)

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Create your own [free online survey](#) now!

Pilot Survey - Valuation of Petrol Filling Stations

[Exit this survey](#)**3. EDUCATION QUALIFICATIONS & PROFESSIONAL REGISTRATION**

GENERAL PRACTICE QUESTIONNAIRE

1. Please indicate your category of registration with the South African Council for the Property Valuation Profession (SACPVP) and the number of years registered? (Kindly only answer 1 category)

	1.1 Professional Valuer (PV)	1.2 Professional Associate Valuer (PAV)	1.3 Professional Associate Valuer (restricted)	1.4 Candidate Valuer
Registered Category	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2. For how many years have you practiced as a Professional Valuer/Professional Associated Valuer?

State No. of years
(approximately)

3. Are you a member of a voluntary association?

- ☐ 2.1 SA Institute of Valuers
- ☐ 2.2 Black Valuers Association
- ☐ 2.3 RICS
- ☐ 2.4 Associated Valuers (New)
- ☐ 2.5 Other (please specify)

4. Do you have a Degree or Diploma - please provide details?

3.1 Degree	<input type="text"/>
3.2 Diploma	<input type="text"/>
3.3 In which year did you first qualify?	<input type="text"/>
3.4 List other qualification?	<input type="text"/>
3.5 List any other qualification?	<input type="text"/>

Pilot Survey - Valuation of Petrol Filling Stations

Exit this survey

4. MUNICIPAL VALUATIONS**1. Please answer the following in relation to the municipal valuations you perform for and on behalf of the Local Authority?**

	YES	NO
4.1 Do you have sufficient time to complete the valuation assigned to you?	<input type="radio"/>	<input type="radio"/>
4.2.1 Did this result in a lack of uniformity in your valuations?	<input type="radio"/>	<input type="radio"/>
4.2.1 Do you find the guidelines explanatory?	<input type="radio"/>	<input type="radio"/>
4.3 Are you instructed to apply a specific methodology?	<input type="radio"/>	<input type="radio"/>
4.3.1 Are you ever of the opinion that a Valuers partiality is compromised i.e. you would probably use another approach?	<input type="radio"/>	<input type="radio"/>
4.3.2 Is the methodology you wish to apply ever challenged by the Local Authority?	<input type="radio"/>	<input type="radio"/>
4.4 Do you agree that all properties should be inspected?	<input type="radio"/>	<input type="radio"/>
4.5 Is the source data provided to you by the Local Authority correct?	<input type="radio"/>	<input type="radio"/>
4.6 Does the Local Authority perform quality control on your completed valuations?	<input type="radio"/>	<input type="radio"/>
4.6.1 Is the quality control consistent?	<input type="radio"/>	<input type="radio"/>
4.6.2 Is the quality control undertaken by an independent person?	<input type="radio"/>	<input type="radio"/>

2. These questions can be answered by a Valuer in the employ of a Local Authority or a Contract Valuer i.e. employed for a specific valuation/s.

Please indicate if you are a Valuer employed by the Local Authority or a Contract Valuer?

- ☐ Valuer employed by Local Authority?
- ☐ Contract Valuer?

3. If you have participated in or compiled a municipal valuation role since the introduction of the Municipal Property Rates Act 2004 (MPRA), in which area was this performed?

	YES
Cape Town Metropole	<input type="radio"/>
Johannesburg Metropole	<input type="radio"/>
Durban Metropole	<input type="radio"/>
Bloemfontein	<input type="radio"/>
Port Elizabeth (Nelson Mandela)	<input type="radio"/>
East London	<input type="radio"/>

Please add any other areas

4. Which of the following types of municipal property valuations have you undertaken?

<input type="checkbox"/> Residential	<input type="checkbox"/> Hotels
<input type="checkbox"/> Commercial	<input type="checkbox"/> Petrol Filling Stations
<input type="checkbox"/> Industrial	<input type="checkbox"/> Hospitals
<input type="checkbox"/> Agricultural	<input type="checkbox"/> Other

Other (please specify)

5. The following question relates to performing Municipal Valuations for various types of property. Please tick the applicable category for a YES answer only?

	Residential	Commercial	Industrial	Special - Petrol Filling Stations	Special - Other
4.1 Are you instructed to employ specific methodology when valuing - if "yes" indicate category?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2 When valuing is the source data provided to you by the Local Authority generally correct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3 Do you generally inspect the properties that you value?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Residential	Commercial	Industrial	Special - Petrol Filling Stations	Special - Other
4.4 Does the Local Authority perform quality control on your valuations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.5 Is the quality control consistent?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6 Is the quality control consistent?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. The following question relates to the issuing of guidelines or practice notes issued by the Local Authority?

	YES	NO
5. Are you provided with precise guidelines to perform a Municipal Valuation?	<input type="radio"/>	<input type="radio"/>
5.1 Do you find the guidelines explanatory?	<input type="radio"/>	<input type="radio"/>
5.2 Did this result in a lack of uniformity in your valuations?	<input type="radio"/>	<input type="radio"/>
5.3 Is the methodology you wish to apply ever challenged by the Local Authority?	<input type="radio"/>	<input type="radio"/>
5.4 Do you ever use the International Valuation Standards for your valuations?	<input type="radio"/>	<input type="radio"/>

7. The following questions relate to current practices and due diligence in performing municipal valuations.

	YES	NO	OTHER
5.1 Do you inspect the properties that you are instructed to value?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.2 Do you agree that all properties valued should be inspected?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.3 Do you think data collectors are adequately trained?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.4.1 Do you think that there are sufficient registered valuers to assist the Local Authority with the municipal valuations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.4.2 Do you think that there are sufficient registered valuers to attend to the objections to the municipal valuations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.5 Do you agree that the objection periods does not provide for a sufficient time period for the objector to respond?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please feel free to comment on any of the above questions?

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Pilot Survey - Valuation of Petrol Filling Stations

[Exit this survey](#)**5. Only answer this section if you have performed MUNICIPAL VALUATION OBJECTIONS**

1. This question must only be answered by Valuers in private practice or Valuers who assist the Local Authority in responding to objections. Please indicate:-

- ☐ Valuer in private practice?
- ☐ Valuer in private practice assisting Local Authority with objections?

2. In which of the following areas have you attended to objections to the General Valuation Role in terms of the Municipal Property Rates Act 2004 (MPRA)?

- | | YES |
|---------------------------------|-----------------------|
| Cape Town Metropole | <input type="radio"/> |
| Johannesburg Metropole | <input type="radio"/> |
| Durban Metropole | <input type="radio"/> |
| Bloemfontein | <input type="radio"/> |
| Port Elizabeth (Nelson Mandela) | <input type="radio"/> |
| East London | <input type="radio"/> |

Please add any other areas

3. Which of the following types of municipal property valuations have you undertaken?

- | | |
|---------------------------------------|--|
| <input type="checkbox"/> Residential | <input type="checkbox"/> Hotels |
| <input type="checkbox"/> Commercial | <input type="checkbox"/> Petrol Filling Stations |
| <input type="checkbox"/> Industrial | <input type="checkbox"/> Hospitals |
| <input type="checkbox"/> Agricultural | <input type="checkbox"/> Other |

Other (please specify)

4. Please answer the following:-

- | | YES | NO | OTHER |
|---|-----------------------|-----------------------|-----------------------|
| 4.1.1 Do you have sufficient time to complete objections? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.1.2 Do you have sufficient time to complete appeals? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.2 Have you every been requested or supplied with the Municipal Valuers guidelines used to value the proeprties? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.3 Do you find the guidelines explanatory? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.4 Are you ever of the opinion that a Municipal Valuers partiality is compromised when instructed to valuing in accordance with specific guidelines? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.5 Do you agree that all properties should be inspected? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.6 Are the reasons provided by the Muncipal Valuer adequate to draft an Appeal? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

5. The following questions relate to current practices and due diligence in performing municipal valuations.

- | | YES | NO | OTHER |
|--|-----------------------|-----------------------|-----------------------|
| 5.1 Do you agree that all properties valued should be inspected? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 5.2 Do you think data collectors are adequately trained? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 5.3 Do you think that there are sufficient registered valuers to attend to the municipal valuations? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 5.4 Do you think that there are sufficient registered valuers to attend to the objections to the municipal valuations? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Please feel free to comment on any of the above questions?

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Pilot Survey - Valuation of Petrol Filling Stations

[Exit this survey](#)**6. Municipal Valuation - General applicable to all participants****1. The following general questions relate to municipal policy and practice.**

	YES	NO	OTHER
1.1 A separate organisation should oversee the municipal valuations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.2 Valuations should be externally controlled by a independent valuation officer or Valuer General (Australia)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3 Muncpal Valuers should be appointed by the Provincial Adminstrator?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3.1 Politicians influence the Municipal Valuer to ensure that there will be sufficient rateable income from the valuations to achive the Council's Budget.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3.2 Politicians have little or no knowledge of the valuation process?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3.3 The Municipal valuer should be given the discretion to determine when the General valuation roll should be produced?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.3.4 The Municipal valuer is provided with sufficient funding to prepare a valuation role?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.4 The Valuation Appeal Board operates independently from the Local Authority?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1.4.1 The Municipal valuer tends to interfere or influence the decision of the Valuation Appeal Board?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

2. The following questions relate to the property owners role in the municipal valuation process.

	YES	NO
2.1 Do you find the property owners generally co-operative?	<input type="radio"/>	<input type="radio"/>
2.2 Do property owners provide accurate information?	<input type="radio"/>	<input type="radio"/>
2.3 Property owners do not understand the valuation process.	<input type="radio"/>	<input type="radio"/>
2.3.1 Property owners should be better informed?	<input type="radio"/>	<input type="radio"/>
2.3.2 If the property owner understood the valuation process he would be more co-operative?	<input type="radio"/>	<input type="radio"/>
2.4 Standard valuation guidelines should be placed in the public domain.	<input type="radio"/>	<input type="radio"/>

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Pilot Survey - Valuation of Petrol Filling Stations

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7. PETROL FILLING STATION VALUATIONS

ONLY ANSWER THE FOLLOWING QUESTIONS IF YOU HAVE VALUED PETROL FILLING STATIONS?

1. Indicate type of organisation on whose behalf you performed valuations.

- ☐ 1.1 Private client e.g. landlord?
- ☐ 1.2 Oil Company
- ☐ 1.3 Property Developer
- ☐ 1.4 Local Authority (municipal Valuations)
- ☐ 1.5 Government or Provincial Government
- ☐ Other (please specify)

2. How many petrol filling stations have you valued in the past 5 years?

3. Indicate the various types of valuations that you perform from the list below:-

- ☐ 3.1 Purchase and sale
- ☐ 3.2 Municipal valuations for Local Authority
- ☐ 3.3 Municipal objections against valuation role
- ☐ 3.4 Expropriation
- ☐ 3.5 Insurance replacement costs
- ☐ 3.6 Rental determinations for landlord
- ☐ 3.7 Rental determination for franchisee
- ☐ 3.7 Portfolio valuations for oil company
- ☐ Other

Other (please specify)

4. The valuation methodology of petrol filling stations

- | | Yes | No | Other |
|---|-----------------------|-----------------------|-----------------------|
| 4.1 Are the behind the pump facilities usually valued as a percentage of turnover? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.1.1 If behind the pump facilities are valued on turnover, will the rent be market related when compared to surrounding retail properties? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 4.1.2 Are the behind the pump facilities usually valued based upon market related rentals in the area? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

	Yes	No	Other
4.2 The forecourt rental is ALWAYS based upon the turnover or throughput of the forecourt.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.2.1 Is the rental for the forecourt based upon a different formula for the oil companies?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.4 A tied lease i.e. between oil company and operator may not necessarily provide the oil company with a fair return on the site?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.4 The highest and best usage of the site is not a valuation consideration when undertaking a municipal valuation?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.5 A head lease should be market related?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.6 Does the profit method (throughput) equate to a market value?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.7 Does the operators management of the site affect the valuation of the property?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.8 The throughput method will provide for just and equitable rates and taxes?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.9 The valuer is given a discretion as to the applicable methodology when valuing petrol filling stations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.10 The valuer should always consider highest and best usage for the site?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.11 A depreciated replacement cost method of valuation plus the site value will produce a more accurate and fair valuation of the municipal value thus providing for fair rates and taxes?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4.12 The valuer should be allowed to adopt his/her own valuation methodology when valuing a petrol filling station?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

5. The role of the oil company in providing valuation data-

	YES	NO	OTHER
5.1 The Oil Company should provide the Municipal Valuer information every three years?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.2 Should the oil company not supply the data, a fine should be levied?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.3 Oil Companies must supply on request all rentals details of the behind the pump facilities?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.3.1 The operator should supply all details on request.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5.4 Should the compulsory provision of data for oil companies and/or operators be legislated?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

6. The Oil companies influence the valuation process:-

	ALWAYS	SOMETIMES	NEVER
6.1.1 Withholding data/information?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.1.2 Uncooperative	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.1.3 Generally refuse to disclose information of properties sold	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.1.4 Instruct the valuer on the method to be employed?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.2 Pay a premium for the branding of a site even if the throughput is not justified?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.3 In your experience are you supplied with sufficient information to perform a general valuation for a petrol filling station?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Additional comment

7. The effect of the branding value of a site

	Always	Sometimes	Never
7.1 Branding plays a large part of the value of a site?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7.2 A Valuer considers the "brand value" when valuing the site?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7.3 The oil companies consider the "brand value" for under performing sites?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

8. To what extent do you think the value of the BRAND will have on the value of the property?

Enter Approximate percentage (%)

9. The values placed on petrol filling station sites are usually in relation to commercial values in surrounding areas:-

	Yes	No
Are on par?	<input type="radio"/>	<input type="radio"/>

0 - 300 kl per month	<input type="text"/>
300 - 500 kl per month	<input type="text"/>
500 - 750 kl per month	<input type="text"/>
750 - 1000 kl per month	<input type="text"/>
1000 - 2000 kl per month	<input type="text"/>
2000 Kl (plus)	<input type="text"/>

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Are more often than not on par? Yes ☐ No ☐

Are seldom on par? ☐ ☐

Other (please specify)

10. In determining the market value for the petrol filling station, which method do you most commonly apply?

	Profit Method (Throughput)	Depreciated replacement cost	Market value (highest and best usage)	Other
10.1 Forecourt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.2 Behind the pumps	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.3 Workshops	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.4 Retail outlets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.5 Restaurant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.6 Surplus land	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other (please specify)

11. If a percentage of the rental is allocated to turnover, please indicate the MONTHLY PERCENTAGE by "clicking" on the applicable answer box?

	0-300kl	301kl - 500kl	500kl - 750kl	750kl - 1 000 000kl	+1 000 000kl
Forecourt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Behind the pumps	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Workshops	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail outlets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Restaurant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Surplus land	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Petrol filling stations are often sold at a Rand Rate per Kilolitre of petrol sold. If you are aware of sales, kindly indicate what was the "going rate" in 2006 (approximately).

APPENDIX F

University of Cape Town

APPENDIX F

Subject: Thesis - Jerry L Margolius

Dear Colleagues

I am presently completing my thesis at the UCT on the valuation of petrol filling stations and the valuation methodology applied when valuing it to the Municipal Property Rates Act (MPRA).

As a valuer, you undertake valuations of petrol filling stations which maybe independently performed on behalf of the Oil Company and/or the Municipality.

Could you please assist me in answering the following questions?. PLEASE include reasons and not a simple YES/NO, unless otherwise stated? I have kept the questions short so this should only take a few minutes of your time to complete. You may respond in the body of this email . However, ANY comments or additional information you may have or suggestions to make will be most appreciated. KINDLY ASSIST IN RESPONDING ASAP!.

If you do not want me to include your name in the Thesis, please advise me when responding (otherwise you will be acknowledged as a source).

1. When undertaking petrol filling station, valuations, do you receive adequate guidelines from:-
 - 1.1 The Municipal Valuer YES/ NO
 - 1.2 The Oil Company YES/NO
2. At any time during the valuation process is your independence as a valuer ever compromised i.e are you instructed to value in accordance with specific guidelines which you may from time to time influence the decision which you will make?
 - 2.1 The Municipal Valuer
 - 2.2 The Oil Company
3. Are your municipal valuations subject to quality control? YES/NO
 - 3.1 If yes, can you describe the process that is followed and are all your valuations reviewed?
 - 3.2 When reviewed, does the person who reviews them have the necessary expertise to do so?
4. Do you agree with the following statements?

- 4.1 Politicians intervene in the municipal valuation process? YES / NO
- 4.2 The Municipal Valuer would operate more professionally if given more time to complete the general valuation roll.
YES / NO
- 4.3 Oil companies are reluctant to provide information about the petrol filling stations when the properties are valued in terms of MPRA?
YES / NO
- 4.4 In the United Kingdom, oil companies are obliged to provide data on the filling stations. If the data is not provided a daily penalty is charged. Do you think that by forcing the petrol company to provide data, the municipal valuations will be more accurate?
YES / NO
- 4.5 Valuers are not given sufficient time to value the properties and if more time was made available, more accurate results would be obtained.
YES / NO.
5. When performing valuations on behalf of the oil companies do you find that the valuations are generally correct and reflect market value in terms of the MPRA.
6. When valuing a petrol filling site for municipal valuations, do you ever consider the highest and best usage of the site?
YES / NO
7. Please consider and comment on the following scenario. A petrol filling station is situated in a prestigious and wealthy residential area. A second identical filling station is located in a poor low-class residential area. Both sites are identical and only pump the same volume of petrol. There are no behind the forecourt facilities.
- 7.1 Using the throughput method of valuation/profits method, based upon the guidelines issued by the Municipality, the valuation of the property in the residential areas are the same?
YES / NO
- 7.2 Valuations would be more equitable if the surrounding land values were taken into consideration when valuing the petrol filling station so as to ensure equity in the rates base?
YES / NO

7.3 The petrol filling station should pay rates and taxes that are equitable and in line with the rates and taxes payable in the residential surrounding area?

YES / NO

8. Are you able to refer me to any other research that you are aware of that may have been conducted previously?

YES / NO

Many thanks

Best wishes.

JERRY L MARGOLIUS

University of Cape Town

APPENDIX G

University of Cape Town

APPENDIX G

1. INTRODUCTION

Dear Colleague

I am a Master degree student at the University of Cape Town and completing a research thesis.

The topic that I am researching is the valuation methodology used to value petrol filling stations and its relationship to Municipal Valuations. As part of the research that I am conducting, I have prepared a questionnaire which will enable me to answer the particular research question.

As a property valuer I shall be pleased if you could kindly assist me by responding to the attached survey. Although the survey focuses on the valuation of petrol filling station, there are sections of the survey that are general and relate specifically to municipal valuations. Therefore please complete the survey even if you are not involved in the valuation of petrol filling stations.

At this stage, little literature on the new Municipal Property Rates Act has been published and the oil companies as you know are often reluctant to provide information. Your assistance is very important to my research and I shall be pleased if you could kindly respond to the answers in the questionnaire.

The questionnaire can be completed on line and will only take a few minutes to complete. As the survey is anonymous, you can be assured that your name will not be released and thus, please ensure that were you are unable to provide an answer that you complete the comment section that follows immediately after the question.

Please click on the following link:

http://www.surveymonkey.com/s.aspxsm=9Fq4iJvSeIKijIUbad6NQ_3d_3d

Thanking you for your co-operation.

All responses will be treated in the strictest confidence.

Jerry Margolius

021 434 4702

email: margo@appraise.co.za

2. PARTICIPANTS INFORMATION

The participant may select not to include his personal details

1.1. Please supply personal details (optional)?

1.1 Name:	<input type="text"/>
1.2 Company:	<input type="text"/>
1.3 Address 1:	<input type="text"/>
1.4 Address 2:	<input type="text"/>
1.5 City/Town:	<input type="text"/>
1.6 Province:	<input type="text"/>
1.7 Postal Code:	<input type="text"/>
1.8 Country:	<input type="text"/>
1.9 Email Address:	<input type="text"/>
1.10 Phone /Cell number:	<input type="text"/>

1.2. State nature of employment and position held?

	1.1 Government / Local Authority	1.2 Private Sector	Other
Please state - "click" on menu	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other (please specify)	<input type="text"/>		

1.3. What type of property do you value the most?

(Please do not indicate more than 3 types)

- ☐ Residential (Including Sectional Title & Blocks of flats)
- ☐ Commercial
- ☐ Industrial
- ☐ Specialised (Hotels / Petrol Filling stations etc)

1.4. Do you ever value petrol filling stations?

☐ Yes ☐ No ☐ Sometimes

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3. EDUCATION QUALIFICATIONS & PROFESSIONAL REGISTRATION

GENERAL PRACTICE QUESTIONNAIRE

21. Please indicate your category of registration with the South African Council for the Property Valuation Profession (SACPVP) and the number of years registered? (Kindly only answer 1 category)

1.1 Professional Valuer (PV) 1.2 Professional Associate Valuer (PAV) 1.3 Professional Assoc. Valuer (Restricted) 1.4 Candidate Valuer

Registration Category

1.5 Comment

2.2. Are you a member of a voluntary association?

- ☐ 2.1 SA Institute of Valuers
- ☐ 2.2 Black Valuers Association
- ☐ 2.3 RICS
- ☐ 2.4 Associated Valuers (New)
- ☐ 2.5 Other (please specify)

2.3. Do you have a Degree or Diploma - please provide details?

- 3.1 Degree
- 3.2 Diploma
- 3.3 In which year did you first qualify?
- 3.4 List other qualification?
- 3.5 List any other qualification?

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4. Only answer these questions if you have undertaken MUNICIPAL VALUATION/S for a Local Authority

3.1. These questions can be answered by a Valuer in the employ of a Local Authority or a Contract Valuer i.e. employed for a specific valuation/s projects?

Please indicate if you are a Valuer employed by the Local Authority or a Contract Valuer?

- ☐ Valuer employed by Local Authority?
- ☐ Contract Valuer?

3.2. If you have participated in or compiled a municipal valuation role since the introduction of the Municipal Property Rates Act 2004 (MPRA), in which area was this performed?

- ☐ Cape Town Metropole
- ☐ Johannesburg Metropole
- ☐ Durban Metropole
- ☐ Bloemfontein
- ☐ Port Elizabeth (Nelson Mandela)
- ☐ East London

Please add any other areas

3.3. Which of the following property types have you valued for municipal valuations?

- | | |
|--------------------------------------|--|
| <input type="checkbox"/> Industrial | <input type="checkbox"/> Commercial |
| <input type="checkbox"/> Residential | <input type="checkbox"/> Other |
| <input type="checkbox"/> Hotels | <input type="checkbox"/> Petrol Filling Stations |
| <input type="checkbox"/> Hospitals | <input type="checkbox"/> Agricultural |

Other (please specify)

3.4. Please answer the following in relation to the municipal valuations you perform on behalf of the Local Authority?

	YES	NO
3.4.1 Do you have sufficient time to complete the valuation assigned to you?	<input type="radio"/>	<input type="radio"/>
3.4.2 Are you instructed to apply a specific methodology?	<input type="radio"/>	<input type="radio"/>
3.4.2.1 Are you ever of the opinion that a Valuers partiality is compromised i.e. you would probably use another approach?	<input type="radio"/>	<input type="radio"/>
3.4.2.2 Is the methodology you wish to apply ever challenged by the Local Authority?	<input type="radio"/>	<input type="radio"/>
3.4.3 Do you agree that all properties should be inspected?	<input type="radio"/>	<input type="radio"/>
3.4.4 Is the source data provided to you by the Local Authority correct?	<input type="radio"/>	<input type="radio"/>

3.5. This question relates to quality control on the valuations. Only mark the category if the answer is YES

	Residential	Commercial	Industrial	Special Property - Petrol Filling Station	Special Other - Hotel etc
3.5.1. Does the Local Authority perform quality control on your completed valuations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.5.2 Do you find the quality control consistent?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.5.3 Is the quality control undertaken by an independent person?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please comment if necessary

3.6. This question relates to guidelines to value a property. Only mark the category if the answer is YES

	Residential	Commercial	Industrial	Special Property - Petrol Filling Station	Special Other - Hotel etc
3.6.1 Are you provided with precise guidelines to value?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6.2 Do you find the guidelines explanatory?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6.3 Do the guidelines ensure uniformity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Residential Commercial Industrial - Petrol Filling Station Special Property Other - Hotel etc

Please insert any comment you may have in respect of the guidelines?

3.7. The following questions relate to current practices and due diligence in performing municipal valuations.

	YES	NO
3.7.1 Do you inspect the properties that you are instructed to value?	<input type="radio"/>	<input type="radio"/>
3.7.2 Do you agree that all properties valued should be inspected?	<input type="radio"/>	<input type="radio"/>
3.7.3 Do you think data collectors are adequately trained?	<input type="radio"/>	<input type="radio"/>
3.7.4. Do you think that there are sufficient registered valuers to assist the Local Authority with the municipal valuations?	<input type="radio"/>	<input type="radio"/>
3.7.5 Do you think that there are sufficient registered valuers to attend to the objections to the municipal valuations?	<input type="radio"/>	<input type="radio"/>
3.7.6 Do you agree that the objection periods does not provide for a sufficient time period for the objector to respond?	<input type="radio"/>	<input type="radio"/>

Please feel free to comment on any of the above questions?

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5. Only answer this section if you have performed MUNICIPAL VALUATION OBJECTIONS

L.1. This question must only be answered by Valuers in private practice or Valuers who assist the Local Authority in responding to objections. Please indicate:-

- ☐ Valuer in private practice attending to objections on behalf of property owner etc ?
- ☐ Valuer in private practice assisting Local Authority with reviewing objections?

L.2. In which of the following areas have you attended to objections to the General Valuation Role in terms of the Municipal Property Rates Act 2004 (MPRA)?

YES

Cape Town Metropole

☐

Johannesburg Metropole

☐

Durban Metropole

☐

Bloemfontein

☐

Port Elizabeth (Nelson Mandela)

☐

East London

☐

Please add any other areas

L.3. Which of the property types due you generally object to or review for the purposes of municipal property valuations?

☐ Residential

☐ Hotels

☐ Commercial

☐ Petrol Filling Stations

☐ Industrial

☐ Hospitals

☐ Agricultural

☐ Other

Other (please specify)

L.4. Please answer the following:-

	YES	NO
L4.1 Do you have sufficient time to complete objections?	<input type="radio"/>	<input type="radio"/>
L4.2 Do you have sufficient time to complete appeals?	<input type="radio"/>	<input type="radio"/>
L4.3 Are you ever of the opinion that a Municipal Valuers partiality is compromised when instructed to valuing in accordance with specific guidelines?	<input type="radio"/>	<input type="radio"/>
L4.4 Do you agree that all properties valued by the Municipal Valuer should be inspected?	<input type="radio"/>	<input type="radio"/>
L4.5 Are the reasons provided by the Municipal Valuer in response to an objection adequate to draft an Appeal?	<input type="radio"/>	<input type="radio"/>

L5. The following questions relate to current practices and due diligence in performing municipal valuations.

	YES	NO
L5.1 Do you agree that all properties valued should be inspected?	<input type="radio"/>	<input type="radio"/>
L5.2 Do you think data collectors are adequately trained?	<input type="radio"/>	<input type="radio"/>
L5.3 Do you think that there are sufficient registered valuers to attend to the municipal valuations?	<input type="radio"/>	<input type="radio"/>
L5.4 Do you think that there are sufficient registered valuers to attend to the objections to the municipal valuations?	<input type="radio"/>	<input type="radio"/>

Please feel free to comment on any of the above questions?

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6. Municipal Valuation - General applicable to all participants**5.1. The following general questions relate to municipal policy and practice.**

	YES	NO
5.1.1 A separate organisation should oversee the municipal valuations?	<input type="radio"/>	<input type="radio"/>
5.1.2 Valuations should be externally controlled by a independent valuation officer or Valuer General (Australia)?	<input type="radio"/>	<input type="radio"/>
5.1.3 Municipal Valuers should be appointed by the Provincial Administrator?	<input type="radio"/>	<input type="radio"/>
5.1.3.1 Politicians influence the Municipal Valuer to ensure that there will be sufficient rateable income from the valuations to achieve the Council's Budget.	<input type="radio"/>	<input type="radio"/>
5.1.3.2 Politicians have little or no knowledge of the valuation process?	<input type="radio"/>	<input type="radio"/>
5.1.3.3 The Municipal valuer should be given the discretion to determine when the General valuation roll should be produced?	<input type="radio"/>	<input type="radio"/>
5.1.3.4 Do you think that the Municipal valuer is provided with sufficient funding to prepare a valuation role?	<input type="radio"/>	<input type="radio"/>
5.1.4 The Valuation Appeal Board operates independently from the Local Authority?	<input type="radio"/>	<input type="radio"/>
5.1.4.1 Do you think that the The Municipal valuer can interfere or influence the decision of the Valuation Appeal Board?	<input type="radio"/>	<input type="radio"/>
5.1.4.2 Do you think that before a matter is referred to the Appeal Board for a final determination that the Owner should be given a hearing?	<input type="radio"/>	<input type="radio"/>

You may comment on any of the above questions

5.2. The following questions relate to the property owners role in the municipal valuation process.

	YES	NO
5.2.1 Do you find the property owners are generally co-operative?	<input type="radio"/>	<input type="radio"/>
5.2.2 Do property owners provide accurate information?	<input type="radio"/>	<input type="radio"/>
5.2.3 Do you think property owners do not understand the valuation process.	<input type="radio"/>	<input type="radio"/>
5.2.3.1 Property owners should be better informed.	<input type="radio"/>	<input type="radio"/>
5.2.3.2 If the property owner understood the valuation process he would be more co-operative.	<input type="radio"/>	<input type="radio"/>
5.2.4 Standard valuation guidelines should be placed in the public domain e.g. available on the internet.	<input type="radio"/>	<input type="radio"/>

7. PETROL FILLING STATION VALUATIONS

ONLY ANSWER THE FOLLOWING QUESTIONS IF YOU HAVE VALUED PETROL FILLING STATIONS?

PLEASE NOTE THAT YOU WILL NEED TO TICK THE COMMENT BOX IN THE EVENT THAT YOU SELECT A "COMMENT".

6.1. Indicate type of organisation on whose behalf you performed valuations.

- ☐ 6.1.1 Private client e.g. landlord?
- ☐ 6.1.2 Oil Company
- ☐ 6.1.3 Property Developer
- ☐ 6.1.4 Local Authority (municipal Valuations)
- ☐ 6.1.5 Government or Provincial Government
- ☐ Other (please specify)

6.2. How many petrol filling stations have you valued in the past 5 years?**6.3. Indicate the various types of Petrol Filling Station valuations that you perform from the list below:-**

- ☐ 6.3.1 Purchase and sale
- ☐ 6.3.2 Municipal valuations for Local Authority
- ☐ 6.3.3 Municipal objections on behalf of Oil Companies against valuation role
- ☐ 6.3.4 Expropriation
- ☐ 6.3.5 Insurance replacement costs
- ☐ 6.3.6 Rental determinations for landlord
- ☐ 6.3.7 Rental determination for franchisee
- ☐ 6.3.7 Portfolio valuations for oil company
- ☐ 6 Other

Other (please specify)

6. 4. The valuation methodology of petrol filling stations

A depreciated replacement cost method of valuation plus the site value will produce a more accurate and fair valuation of the municipal value thus providing for fair rates and taxes?

Yes

No

☐☐

Please comment below

6.5. If the behind the pump facilities are valued as a percentage of turnover, will the rental be market related when compared to surrounding commercial properties?

☐ Yes ☐ No ☐ Comment

Other (please specify)

6.6. Are the behind the pump facilities usually valued as a percentage of turnover?

☐ Yes ☐ No ☐ Comment

Other (please specify)

6.7. Are the behind the pump facilities usually valued based upon market related rentals in the area?

☐ Yes ☐ No ☐ Comment

Comment

6.8. Are the forecourt rentals ALWAYS based upon the turnover or throughput of the forecourt?

☐ Yes ☐ No ☐ Comment

Comment

6.9. Is the rental of the forecourt based upon different formula for the oil companies?

☐ Yes ☐ No ☐ Comment

6.10. A tied lease i.e. a lease between the oil Company and the operator may not necessarily provide the oil company with a fair return on the site?

☐ Yes

☐ No

6.11. The highest and best usage is not a valuation consideration when undertaking a municipal valuation?

☐ Yes

☐ No

☐ Comment

6.12. The municipal valuer should always consider highest and best usage when undertaking a municipal valuation for a petrol filling station?

☐ Yes

☐ No

☐ Comment

6.13. A head lease i.e. a lease between the Oil Company and property owner (Landlord) should be market related?

☐ Yes

☐ No

6.14. Does the profit method (throughput) equate to market value for the land component of the forecourt?

☐ Yes

☐ No

Please add any comment

6.15. Does the operators management of the site affect the valuation of the property?

☐ Yes

☐ No

Comment

6.16. If the operators management of the site affect the valuation of the property do you adjust the municipal valuation and how (please insert comment)

☐ Yes ☐ No

Comment

6.17. Do you agree that the throughput method (profit method) may not provide for just and equitable rates and taxes?

☐ Yes ☐ No

Comment

6.18. Do you agree that the valuer when performing a municipal valuation on a petrol filling station is not given a discretion as to the applicable methodology that he should apply?

☐ Yes ☐ No

Comment

6.19. The valuer should be given the discretion to apply his own methodology when valuing a petrol filling stations?

☐ Yes ☐ No

Comment

6.20. The role of the oil company in providing valuation data-

	YES	NO
6.20.1 The Oil Company should provide the Muncipal Valuer information every three years?	<input type="radio"/>	<input type="radio"/>
6.20.2 Should the oil company not supply the data, a fine should be levied?	<input type="radio"/>	<input type="radio"/>
6.20.3 Oil Companies must supply on request all rentals details of the behind the pump facilities?	<input type="radio"/>	<input type="radio"/>
6.20.3.1 The operator should supply all details on request.	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>

YES

NO

6.20.4 Should the compulsory provision of data for oil companies and/or operators be legislated?

Other (please specify)

6.21. The Oil companies influence the valuation process:-

ALWAYS SOMETIMES NEVER

6.21.1 Withholding data/information?

☐ ☐ ☐

6.21.2 Uncooperative

☐ ☐ ☐

6.21.3 Generally refuse to disclose information of properties sold

☐ ☐ ☐

6.21.4 Instruct the valuer on the method to be employed?

☐ ☐ ☐

6.21.5 Pay a premium for the branding of a site even if the throughput is not justified?

☐ ☐ ☐

6.21.6 In your experience are you supplied with sufficient information to perform a general valuation for a petrol filling station?

☐ ☐ ☐

Additional comment

6.22. The effect of the branding value of a site

Always Sometimes Never

6.22.1 Branding plays a large part of the value of a site?

☐ ☐ ☐

6.22.2 A Valuer considers the "brand value" when valuing the site?

☐ ☐ ☐

6.22.3 The oil companies consider the "brand value" for under performing sites?

☐ ☐ ☐

Other (please specify)

6.23. To what extent do you think the value of the BRAND will have on the value of the property?

Enter Approximate percentage (%)

6.24. The values placed on petrol filling station sites are usually in relation to commercial values in surrounding areas are seldom the same?

☐ Yes

☐ No

Other (please specify)

6.25. In determining the market value for the petrol filling station, which method do you most commonly apply?

	Profit Method (Throughput)	Depreciated replacement cost	Market value (highest and best usage)
6.25.1 Forecourt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.25.2 Behind the pumps	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.25.3 Workshops	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.25.4 Retail outlets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.25.5 Restaurant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.25.6 Surplus land	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Kindly comment on any of the above methods

6.26. In determining the market value for the petrol filling station FOR MUNICIPAL PURPOSES please indicate if you would apply a different method?

	Profit Method (Throughput)	Depreciated replacement cost	Market value (highest and best usage)
6.26.1 Forecourt	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.26.2 Behind the pumps	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.26.3 Workshops	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.26.4 Retail outlets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.26.5 Restaurant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.26.6 Surplus land	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Kindly comment on any of the above methods

6.27. If a percentage of the rental is allocated to turnover, please indicate the MONTHLY PERCENTAGE by "clicking" on the applicable answer box?

	0-300kl	301kl - 500kl	500kl - 750kl	750kl - 1 000 000l	+1 000 000l
Forecourt	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>
Behind the pumps	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>
Workshops	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>
Retail outlets	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>
Restaurant	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>
Surplus land	<input type="button" value="0"/>	<input type="button" value="1"/>	<input type="button" value="2"/>	<input type="button" value="3"/>	<input type="button" value="4"/>

6.28. Petrol filling stations are often sold at a Rand Rate per Kilolitre of petrol sold. If you are aware of sales, kindly indicate what was the "going rate" in 2006 (approximately). PLEASE ONLY ENTER A NUMERICAL NUMBER

0 - 300 kl per month	<input type="text"/>
301 - 500 kl per month	<input type="text"/>
502 - 750 kl per month	<input type="text"/>
751 - 1000 000l per month	<input type="text"/>
1 000 001 - 2 000 000 per month	<input type="text"/>
2 000 000l (plus)	<input type="text"/>

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APPENDIX H

University of Cape Town

APPENDIX H

RESPONDENTS COMMENTS TO QUESTION NO. 6.4

A depreciated replacement cost method of valuation plus the site value will produce a more accurate and fair valuation of the municipal value thus providing for fair rates and taxes?

=====

- Location is paramount as it is the main driver of value.
- Replacement cost is not a true reflection of value.
- Petrol filling stations are income producing properties.
- Head lease value is dependent on pumping capacity.
- Comparative sales take into account the locality are important.
- Petrol filling stations operate in terms of a long lease rental.
- The value of the property is on the literage.
- Value is based on property income stream.
- Income method should be used.

APPENDIX H

RESPONDENTS COMMENTS TO QUESTION NO. 6.4

A depreciated replacement cost method of valuation plus the site value will produce a more accurate and fair valuation of the municipal value thus providing for fair rates and taxes?

=====

- Location is paramount as it is the main driver of value.
- Replacement cost is not a true reflection of value.
- Petrol filling stations are income producing properties.
- Head lease value is dependent on pumping capacity.
- Comparative sales take into account the locality which are important.
- Petrol filling stations operate in terms of a long lease rental.
- The value of the property is on the literage.
- Value is based on property income stream.
- Income method should be used.

APPENDIX I

University of Cape Town

APPENDIX I

RESPONDENTS COMMENTS TO QUESTION NO 6.6

Question (Ref F6) Are the behind the pump facilities were usually valued as a percentage of turnover?

- No they are determined out of the yield rate, rentals and dealers margins.
- Turnover rentals should be a fair indication of value.
- Value is dependent on pumping capacity.
- Depends on the turnover and the percentage applied.
- Value the "jockey or the horse?"
- Provided the facilities have a turnover.
- Not always as some of these are branded shops.

APPENDIX I.1

RESPONDENTS COMMENTS TO QUESTION NO 6.9

Question Is the rental of the forecourt based upon different formula for the oil companies?

COMMENT

- Similar. Petrol for example say 200,000 litres x .647 cents per litre = R 129 500 x % based on throughput e.g. 16% = R20 704 for forecourt rental.
- Different oil companies have marginally different dealer margins and opinions of what percentage of margin equals forecourt.
- Yes, i.e. Engen works on a sliding scale based on throughput while BP uses a fixed percentage of throughput irrespective of literage.
- Different oil companies have different formula, normally very closely guarded and information available in the market place is usually dated.
- Different petrol stations appear to have different sliding scales on throughput/forecourt rentals.
- Differs per company and ownership.
- The percentage taken is obtained from an oil company to help with accuracy.
- This is the grey area that valuers don't usually get enough information from comparables.
- Standardised contracts however that must be confirmed and if not the contract formula understood.
- Although formulas are marginally different, they are not considered material.
- Some oil companies are perceptive.

APPENDIX J

University of Cape Town

APPENDIX J

RESPONDENTS COMMENTS TO QUESTION NO 6.16

Question **If the operators management of the site affects the valuation do you adjust the municipal valuation and how?**

The responses were:-

- The municipal valuation assumes vacant possession. Therefore the Valuer ignores the operator. Should the fuel throughput be low in relation to the PFS's in close proximity (similar exposure) the dynamics are equally applied.
- The management should not be a factor as a Valuer should value the property and not the business. Willing buyers will purchase at current operating levels as it takes time to increase the throughput.
- The nature of the management either good or poor will affect the value and this will be reflected from the throughput.
- The property must be valued under typical management and generally one would adjust with market related rentals and comparison of the throughput of service stations in the area along with the lifespan of the service station and capital expenditure to ensure continuous use of those rentals.
- Review the actual figures but make allowance for highest and best usage.
- There are various affects on the valuation in general. The operator's mismanagement, lack of maintenance creating poor kerb appeal, ineffective marketing, insufficient signage etc will naturally affect the throughput figures (higher/lower) and thus increase or decrease the effective forecourt rental.
- The Valuer should read the lease contract and adjust the rental based upon the actual turnover where applicable.
- If the site is poorly managed, you should not adjust the rentals as it limits the marketability. The value of the property does increase with better management.

APPENDIX K

University of Cape Town

APPENDIX K

RESPONDENTS COMMENTS TO QUESTION NO 6.17

Question **Do you agree that the Profit method may not provide a valuation for just and equitable rates and taxes?**

1. Consistency is important i.e. whatever method is applied, whatever you do to one you do to another. However, a valuer must consider Highest and Best Use.
2. The property is treated on the same principles as any other income producing property
3. Similar to hotels
4. Service stations are specialized and this method is the correct one, unless there are no restaurants or workshops etc... then the property can be valued as vacant based on comparisons of similar throughput sites and the buildings would be ignored or depreciated due to the oil company erecting them at their cost
5. The building costs may be the same but the income differ per area - Profit method should be taken into consideration
6. It could - if it is measured by an individual's management of the petrol station. Market norms should be applied where possible.
7. If done correctly it will produce the correct valuation.
8. Depends on the litreage volumes pumped. below a certain amount the station is not feasible anyway.
9. The amount of filling stations are limited hence the filling station do have a advantage above normal shop owners who many have plenty of competitors and street vendors.
10. If there is a correct allocation of profit to the various capital components (operations, Improvements, land etc).

APPENDIX L

University of Cape Town

APPENDIX L

RESPONDENTS COMMENTS TO QUESTION NO 6.18

Question **The Valuer should be given discretion to apply his own methodology when valuing petrol filling stations?**

1. Consistency is important. This will prove helpful in the checking stages.
2. If experienced the valuer will know what method to apply.
3. Subject to full explanation and motivation.
4. No uniformity and it is specialized.
5. As long as he is competency.
6. It should be standardised with the consensus of the SACPVP & SAIV and its members.
7. But must be motivated.
8. Within prescribed guidelines and applying market norms.
9. Just use a valuer who knows how these things work.
10. Any valuation method should reflect the value of the property and if the current use is not valued it should be pointed out to the local council and the reason given, i.e. filling station operations poor land more valuable for other types of development happening currently or shortly in the area or surround.
11. Seems logical, but the municipality need to provide guidelines and need uniformity, I don't think too much latitude should be allowed, however if the company does not provide throughput then the municipality must have an alternative method based on fact.

APPENDIX M

University of Cape Town

APPENDIX M

RESPONDENTS COMMENTS TO QUESTION NO 6.20

Question The oil company should provide the Municipal Valuation information every three years.

1. Not being a municipal valuer I cannot comment.
2. It is obviously ideal to obtain as much info as possible from various sources but it should not be forced or legislated.
3. Although the above is "yes" the reality is information gathering of service stations is difficult to come by. Legislation should prohibit owners/operators/oil company from objecting to property values if no information was forthcoming.
4. No we have enough legislation that cannot be enforced.
5. Are we a communist state? Why must I tell you what I earn?
6. Onus on the oil company & the operator to comply otherwise can be subpoenaed to provide.

APPENDIX N

University of Cape Town

APPENDIX N

RESPONDENTS COMMENTS TO QUESTION NO 6.24

Question **The values placed on petrol filling station sites are usually in relation to commercial values in surrounding areas are seldom the same?**

1. Only on workshops, restaurants etc... unless there is a long term lease and the lease is based on a percentage of turnover.
2. Cannot compare petrol station sites with other commercial/ retail properties. Not the same type and function. Should compare petrol stations to other petrol stations - not to normal retail/ commercial properties.
3. Do not understand.
4. Higher due to the limited competition.
5. They should be the same, but often are not.
6. Subject to reasonable necessary adjustments.
7. The values of petrol filling stations are normally different to commercial values in surrounding areas.
8. Use is often tied to a servitude that limits other value adding commercial options.

APPENDIX O

University of Cape Town

APPENDIX O

RESPONDENTS COMMENTS TO QUESTION NO 6.25

Question In determining the market value for the petrol filling station, which method do you most commonly apply?

1. Market Value is the mostly accepted method in our courts, you only apply other methods where it is not applicable.
2. The initial approach is to value the forecourt by the profit method. If an alternative use is potentially higher, the usual investigations inherent in highest and best use should be undertaken - particularly "legally permissible".
3. Forecourt = throughput. Retail and restaurant on both turnover and market rental comparison. Workshops on market rental only.
4. (10.1, 10.2, 10.3, 10.4 and 10.5) If the highest and best use being for a filling station, I will use the profit method based on a rental structure. 10.6 Rates for business land based on comparable sales for commercial land.
5. Where sufficient data is available, "behind the pumps" facilities should be compared to other "behind the pumps" facilities at other petrol stations in a given area.
6. Market value can read comparable analysis.
7. Without looking at the leases you are dead, don't value filling stations.
8. Use others as a check/input in some circumstances.

APPENDIX P

University of Cape Town

APPENDIX P

RESPONDENTS COMMENTS TO QUESTION NO 6.27

Question If a percentage of the rental is allocated to turnover, please indicate the monthly percentage by "clicking" on the applicable answer box?

SCHEDULE - RENTAL ALLOCATED TO TURNOVER

		0-2.5%	2.5%-5%	5%-7.5%	7.5%-10%	10%-12.5%	12.5%-15%	15%-17%	17%-20%	20%-25%	30%+
0-300KL											
Forecourt		2			1	1	5	3		1	
Behind pumps		2			1	1	2	3		2	
Workshop		3			2	2	1	1		1	
Retail		3			1	1	1	2		1	
Restaurant		3			1	1	1	2		1	
Land		2	1	2			1				
300-500KL											
Forecourt		2		1	1						
Behind pumps		2			3						
Workshop		2			1	1					
Retail		2			1	1					
Restaurant		3			1						
Land		3									
500-700KL											
Forecourt		3		1							
Behind pumps		3									
Workshop		3									
Retail		1		1	1	1				2	
Restaurant		1			1	1					
Land		1			1	1	1				
750-1million											
Forecourt		1			1	1					
Behind pumps		1			1	1					
Workshop		2				2				1	1
Retail		2				2					
Restaurant		2			1	1	1				
Land		2			1	1					

1m-2m											
Forecourt		2		1		1					
Behind pumps		5									
Workshop											
Retail											
Restaurant											
Land											
2m+	No respondents										

University of Cape Town

APPENDIX Q

University of Cape Town

Please complete the following questions

IF YOU HAVE NO KNOWLEDGE IN THE VALUATION OF PETROL FILLINGSTATIONS KINDLY PASS THIS ONTO THE RELEVANT PERSON

1. Name

Telephone number:

(If you supply your name and contact details, they will not be divulged and confidentiality is assured.)

2. If you are a registered valuer with the South African Council for the Property Valuation Profession (SACPVP) please indicate your category of registration?

2.1 Professional Valuer ☐ 2.2 Associated Valuer ☐

2.3 Please indicate the number of years experience you have had with the valuation of petrol filling stations years

3. VALUATION OF THE FORECOURT (x) Applicable

3.1 Valuers use a throughput or profit method to value the forecourt

3.1.1 Do you agree with this approach ☐ YES ☐ NO

3.1.2 Does your company apply a specific formula which differs from this approach e.g. take into account other factors which are not only related to the throughput?

☐ YES ☐ NO

Could you provide any details or comment on the above:-

.....

3.2 Does the formula you apply differ from other oil companies ☐ YES ☐ NO

4. VALUATION OF BEHIND THE PUMP FACILITIES

(This applies to Workshops, Café's, Restaurants etc)

4.1 The valuers generally apply either a market related rental for the behind the pump facilities or base these facilities on the turnover of the operation.

4.1.1 Do you agree with this approach?

YES

NO

4.1.2 Does your company apply a specific formula which differs from this approach?

4.1.3 Which policy in this approach does your company subscribe to?

YES

NO

4.1.3.1 market rental of premises

YES

NO

4.1.3.2 rental based upon turnover

YES

NO

Could you provide details or any comment on the above:-

.....

.....

.....

5. We have generally found the municipal valuation determined for our petrol filling stations in the 2006 Cape Town General valuation to be correct?

YES

NO

6. Do you attach a branding value to the sites?

YES

NO

7.1 If yes, could you indicate a possible percentage range of values?

.....

.....

8. Should an underperforming site be valued on an open market value i.e. ignoring throughput but taking into account highest and best usage?

YES

NO

9. MUNICIPAL VALUATIONS

The following questions/statements relate directly to municipal valuations

9.1 Would your company participate in preparing national Guidelines for municipal valuations?

YES

NO

9.2 The municipal valuation should ensure that just and equitable rates and taxes are paid?

YES

NO

9.3 In terms of the previous Cape's Valuation Ordinance, the value of the petrol filling station was based upon the market value of the land plus the depreciated replacement cost of the buildings (DRC). In terms of the Municipal Property Rates Act, the overall market valuation of the property is now determined.

9.3.1 The previous valuation methodology Land +DRC in terms of the valuation ordinance provided a valuation that would culminate in a just and equitable rates determination.

YES

NO

9.3.2 The current methodology where the market value is determined in terms of the Municipal Property Rates Act would culminate in a just and equitable rates determination.

YES

NO

9.3.3 Do you agree with the following statement when the market value is used to determine municipal valuation for a petrol filling station using the throughput/profit method to determine the value of the forecourt?

9.3.3.1 If the site is located in a low value or rural area (say), the price of the land on which the forecourt is located would have the same value as if the land was located in a high value area or urban area (say), if the throughput was the same.

9.3.3.2 If you answer NO – could you kindly comment as to why they would not be the same?

YES

NO

.....

9.4 For the purposes of determining the market value of the petrol filling station for the purposes of assessing the municipal valuation, the following methods would result in just and equitable compensations (Please indicate with an X)

	Profit Method/Throughput	DRC + Market value of land	Market value (considering highest and best usage)	
Forecourt				
Behind the Pumps viz:-				
Workshops				
Retail shops				
Café's				
Restaurant				
Branding value				
Vacant land				

YES

NO

- 9.5 Should the branding value be included in the value of the site for example the site may be a low pumping site but due to its prime location, the oil company would retain the site and therefore the branding of the site has a particular value?

COMMENT:

.....
.....
.....

- 9.6 Do you voluntarily provide information to the municipal valuer upon request for the purposes of determining the municipal valuation of a petrol filling station site?

- 9.7 Did you find the municipal valuations for your properties i.e. petrol filling stations to be substantially correct in 2006 when the municipal valuation is determined?

☐ YES ☐ NO

☐ YES ☐ NO

- 9.8 The municipal valuers approach in determining a municipal valuation should be consistent and based upon accurate valuations.

☐ YES ☐ NO

- 9.9 The municipal valuer should inspect all sites to determine the municipal valuation of a petrol filling station.

☐ YES ☐ NO

- 9.10 The municipal valuer should apply a consistent approach to all petrol filling stations.

☐ YES ☐ NO

===== END =====